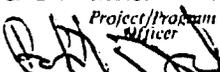
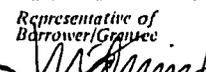
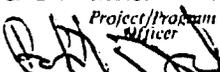
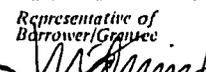
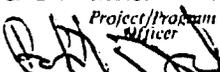
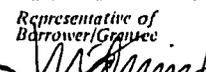


A.I.D. EVALUATION SUMMARY PART I

(BEFORE FILLING OUT THIS FORM READ THE ATTACHED INSTRUCTIONS)

A. REPORTING A.I.D. UNIT (Mission or AID/W Office) USAID/Manila (ES <input type="checkbox"/>)	B. WAS EVALUATION SCHEDULED IN CURRENT FY ANNUAL EVALUATION PLAN? yes <input checked="" type="checkbox"/> slipped <input type="checkbox"/> ad hoc <input type="checkbox"/>	C. EVALUATION TIMING interim <input type="checkbox"/> final <input type="checkbox"/> ex-post <input type="checkbox"/> other <input checked="" type="checkbox"/>			
D. ACTIVITY OR ACTIVITIES EVALUATED (List the following information for project(s) or program(s) evaluated; if not applicable, list title and date of the evaluation report)					
Project #	Project/Program Title (or title & date of evaluation report)	First PROAG or equivalent (FY)	Most recent PACD (mo/yr)	Planned LOP Cost ('000)	Amount Obligated to Date ('000)
492-0343	Project Design	7/15/80	8/30/92	18,000	12,000
492-0361	Municipal Development Fund	8/8/81	12/31/90	36,000	36,000
492-0365	Markets	8/31/82	3/31/90	9,200	9,200
492-0374	Regional Development Fund	8/31/82	9/30/90	190,000	173,278

E. ACTION DECISIONS APPROVED BY MISSION OR AID/W OFFICE DIRECTOR	Name of Officer responsible for Action	Date Action to be Completed
1. ESFS will establish a new sense of purpose directed towards developing local government capabilities for subproject design, construction, contract management and evaluation.	Lino Aldovino, ESFS	September 1990
2. ESFS will establish regional offices.	Lino Aldovino, ESFS	September 1990
3. ESFS will increase its internal systems capacities including technical engineering.	Lino Aldovino, ESFS	January 1990
4. ESFS will concentrate on simple, "fast-track" sub-projects, especially schools and roads.	Lino Aldovino, ESFS	January 1990 (in terms of programming)
5. ESFS and USAID will carry out regular evaluations.	Rawlinson Dimayuga, ESFS Robert Jordan, USAID	December 1989 (for first joint assessment)
6. USAID will step back from internal project management and carry-out oversight through monitoring ESFS' and LGU's adherence to established standards guidelines and procedures.	Robert Jordan, USAID	January 1990 (or upon approval of ESFS' model docs.
(Please see attached sheet)		

F. DATE OF MISSION OR AID/W OFFICE REVIEW OF EVALUATION mo <u>10</u> day <u>4</u> year <u>1989</u>					
G. APPROVALS OF EVALUATION SUMMARY AND ACTION DECISIONS					
Signature Typed Name Date	<table style="width: 100%; border: none;"> <tr> <td style="text-align: center; border: none;">  Project/Program Officer Robert E. Jordan </td> <td style="text-align: center; border: none;">  Representative of Borrower/Grauee Lino P. Aldovino </td> <td style="text-align: center; border: none;">  Evaluation Officer Dominic D'Antonio </td> <td style="text-align: center; border: none;">  Mission or AID/W Office Director Malcolm Butler </td> </tr> </table>	 Project/Program Officer Robert E. Jordan	 Representative of Borrower/Grauee Lino P. Aldovino	 Evaluation Officer Dominic D'Antonio	 Mission or AID/W Office Director Malcolm Butler
 Project/Program Officer Robert E. Jordan	 Representative of Borrower/Grauee Lino P. Aldovino	 Evaluation Officer Dominic D'Antonio	 Mission or AID/W Office Director Malcolm Butler		

Cont.

E. Action Decisions Approved by Mission or AID/W Office Director

Action(s) Required	Name of Officer responsible for Action	Date Action to be Completed
7. ESFS and USAID will establish a joint working group to develop plan of action to address problem of income-generating subprojects, including the need for a special credit facility and/or revised credit arrangements.	Arnel Alvarado, ESFS Mike Demetre, USAID	January 1990
8. ESFS will conduct campaign to inform LGUs of ESFS procedures.	Arnel Alvarado, ESFS	June 1990
9. Training programs in subproject design, contracting and implementation will be developed and conducted.	Arnel Alvarado, ESFS	December 1990 (for entire range of training programs)
10. ESFS will delegate full authority to select, contract and implement standardized subprojects to appropriate LGUs on a phased basis.	Lino Aldovino, ESFS	September 1990

H. EVALUATION ABSTRACT (do not exceed the space provided)

The process evaluation of four Economic Support Fund Projects (totalling \$291 million in obligations) analyzed mid-term progress toward attainment of project objectives through subproject performance and the evolving roles of participating institutions.

The analysis reviewed three subproject components cutting across three projects: public markets and other income producing projects, roads, and schools. It then reviewed the process aspects of all projects: program, technical, and financial management. The study then evaluated the institutional roles of the four major organizations involved: The Economic Support Fund Secretariat, local government units, USAID, and the Regional Development Councils. Finally, the analysis drew lessons from the study applicable beyond these projects, and made recommendations for future conceptual restructuring of the Secretariat's purposes and programs in the light of Philippine and U.S. national priorities.

The evaluation generally concluded that schools and roads, which compressed the bulk of subprojects, were successful. However, income-producing subprojects (14 percent of past funding, 1 percent of total subprojects) were not developing the level of income necessary to make them financially sustainable as originally forecasted, nor were they always meeting their health and environmental objectives. The evaluation determined that the complex of managerial systems, some traditional, some evolved by both donor and recipient needs for monitoring, were not working as smoothly as they might. It documented deficiencies in the functioning of the Secretariat in carrying out its activities but noted improvements in its operation, the potential of local governments and their liabilities, and the administrative dominance of USAID.

The evaluation recommended a number of immediate changes, including the devolution of certain authorities for subproject management and contracting to local governments. It urged a reformulation of the role of the Secretariat into one designed to build the capacity of local governments to plan, construct, and manage local infrastructure and other projects. Within the prudent management of public monies, it recommended that USAID proceed with its planned post subproject oversight role consistent with fiscal needs and project efficiency.

I. EVALUATION COSTS

1 Evaluation Team Name	Affiliation	Contract Number OR TDY Person Days	Contract Cost OR TDY Cost (US \$)	Source of Funds
David Steinberg	Checchi	44	12,540)
Robert Fedel	L. Berger	40	11,400) Project
James Dawson	Checchi	38	10,450) Design, ESF
Antonio Mansueto	Local independent	32	1,920) Program
Ma. Belen Racho- Alingasa	Local independent	18	1,170)
Lemuel Miravalles	Local independent	27	2,295)
2 Mission Office Professional Staff Person Days (estimate)		40		
		3 Borrower/Grantee Professional Staff Person Days (estimate)		40

A.I.D. EVALUATION SUMMARY PART II

J. SUMMARY OF EVALUATION FINDINGS, CONCLUSIONS AND RECOMMENDATIONS *(Try not to exceed the 3 Pages provided)*

Address the following items:

- Name of mission of office
- Purpose of activity(ies) evaluated
- Purpose of the Evaluation and Methodology Used
- Findings and conclusions
- Recommendations
- Lessons learned

This study was designed as a process evaluation to assist USAID and the Government of the Philippines in assessing mid-term progress on four projects under the Economic Support Fund (ESF). It is to be supplemented by a later impact evaluation.

The Municipal Development Fund is aimed at improving social and economic conditions in base-impact areas of the country through infrastructure activities responsive to locally established priorities at the municipal level. The Regional Development Fund addresses similar requirements at the provincial level and on a nationwide basis. The Markets Project supports market construction/improvement in five cities. Project Design serves as a support activity for these three projects.

Because of the number (3,642) and geographic diversity of the subprojects, only a small portion (130) could be visited by the six-person evaluation team. In six weeks in the Philippines, the team visited 16 provinces and talked with officials and others from the barangay to the provincial level and to central agency officials. Especially important were site visits to 19 markets, or 65 percent of the total number of markets under the projects.

This evaluation reviewed both the functional and institutional aspects of the projects. The team studied the three major subproject activities (markets and other income producing ventures, roads, and schools), and then analyzed the institutional/managerial systems that were related to them; program, technical, and financial management. The study then assessed the institutional roles of the four major components: the Secretariat, local government units, USAID, and the Regional Development Councils. Future direction for the projects and for the institutional framework were recommended, and lessons learned were identified for application to other activities.

In general, the evaluation found that schools and roads were meeting targets for completion and were successfully concluded. However, most markets and other income generating subprojects were not developing the level of income necessary to make them financially sustainable as originally forecasted, nor were they always meeting their health and environmental objectives. The evaluation concluded that most municipalities may not be able to fully repay their loans for the construction of these subprojects which in some cases the team found to be overbuilt in terms of present capacity needs.

The evaluation agrees with the recommendations of the Secretariat and USAID that the Markets Project be discontinued. This study did not attempt to evaluate smaller rural markets programmed for construction in 1989 and 1990. The evaluation concluded that the Secretariat does not possess the mechanism to monitor loan repayments, which were scheduled but which have not yet begun. The team recommended that this area be studied further.

The evaluation noted that local government units often have the capacities to build and maintain roads and schools, and that more authority should be delegated to them for these purposes. While technological skills generally exist at local levels sufficient to carry out roads and schools projects, which are of standard specifications, such skills were found to be lacking for larger, more complex construction. The evaluation concluded that there has not been technology transfer from the Secretariat to local governments and recommends that technology transfer to local governments be an important component of future project activities.

Date this summary prepared:

SUMMARY

The Secretariat has suffered from discontinuous leadership and a clear goal and purpose, both problems primarily stemming from recent political events. The Secretariat's management recognized these problems and for several months has engaged in an internal self-examination of both the problems and the Secretariat's future direction. The Secretariat's staff have produced several major draft planning/policy documents on these issues, which in the team's opinion, are distinct improvements, and which if implemented will lead to enhanced capacity of the Secretariat. The evaluation recommends that some of the more basic issues on the Secretariat's role be addressed at high Philippine and U.S. levels, and before undertaking any major new initiatives.

SUMMARY (Continued)

2

ATTACHMENTS

K. ATTACHMENTS (List attachments submitted with this Evaluation Summary, always attach copy of full evaluation report even if one was submitted earlier)

Full evaluation report.

MISSION COMMENTS ON FULL REPORT

L. COMMENTS BY MISSION AID/W OFFICE AND BORROWER/GRANTEE

Comments of USAID and ESFS are included in the full evaluation report. (Pages 70-75)

AR

70-10000-1

United States Agency for International Development

Republic of the Philippines

**A PROCESS EVALUATION OF THE
ECONOMIC SUPPORT FUND PROJECTS**

Final Report

July 1989

USAID Contract No. 492-0343-C-00-9051-00

Prepared by:

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EVALUATION ABSTRACT

The process evaluation of four Economic Support Fund Projects (\$291 million obligations) analyzed progress toward attainment of project objectives through subproject performance and the evolving roles of participating institutions.

The analysis reviewed three subproject components cutting across three projects: public markets and other income producing projects, roads, and schools. It then reviewed the process aspects of all projects: program, technical, and financial management. The study then evaluated the institutional roles of the four major organizations involved: The Economic Support Fund Secretariat, local government units, USAID, and the Regional Development Councils. Finally, the analysis drew lessons from the study applicable beyond these projects, and made recommendations for future conceptual restructuring of the Secretariat's purposes and programs in the light of Philippine and U.S. national priorities.

The evaluation generally concluded that income producing subprojects (14 percent of past funding, 1 percent of projects) were not developing the level of income necessary to make them financially sustainable as originally forecasted, nor were they always meeting their health and environmental objectives but that roads and schools were generally successful. It determined that the complex of managerial systems, some traditional, some evolved by both donor and recipient needs for monitoring, were not working as smoothly as they might. It documented deficiencies in the functioning of the Secretariat in carrying out its activities but noted improvements in its operation, the potential of local governments and their liabilities, and the administrative dominance of USAID.

The evaluation recommended a number of immediate changes, including the devolution of certain authorities for subcontract management and contracting to local governments. It urged a reformulation of the role of the Secretariat into one designed to build the capacity of local governments to plan, construct, and manage local infrastructure and other projects. Within the prudent management of public monies, it recommended that USAID also consider the formation of a post-subproject oversight role consistent with fiscal needs and project efficiency.

EXECUTIVE SUMMARY

This study was designed as a process evaluation to assist USAID and the Government of the Philippines in assessing progress on four projects under the Economic Support Fund (ESF). It is to be supplemented by a later impact evaluation.

Because of the number (3,669) and geographic diversity of the subprojects, only a small portion (130) could be visited by the six-person evaluation team. In six weeks in the Philippines, the team visited 16 provinces and talked with officials and others from the barangay (village) to governors and central agency officials. Especially important were site visits to 19 markets, or 65 percent of the total supported.

The scope of work contained a wide-ranging series of questions from the most general, such as the overall efficacy of the Secretariat and project compatibility with national and regional planning, to detailed inquiries on the funding, construction variance orders, and the like. To approach these issues in a comprehensive manner, the team constructed a suitable analytical framework.

This evaluation reviews both the functional and institutional aspects of these projects. The team studied the three major subproject activities (markets and other income producing ventures, roads, and schools), and then analyzed the institutional/managerial systems that were related to them: program, technical, and financial management. The study then assessed the institutional roles of the four major components: the Secretariat, local government units, USAID, and the Regional Development Councils. These analyses were each coupled with conclusions and recommendations. A future direction for the projects and their institutional base was recommended, and lessons learned were drawn from the evaluation for other activities. The team also considered the recent political climate in the Philippines, together with the numerous administrative changes that have resulted, and based their conclusions within the context of their profound and continuing effect on the ESF projects and involved local institutions.

In general, the team found that most markets and other income generating subprojects were not developing a level of income necessary to make them financially sustainable as originally forecasted, nor were they always meeting their health and environmental objectives. Most municipalities may not be able to repay their loans for the construction of these subprojects, which in some cases were overbuilt in the terms of their present capacity needs. Roads and schools, however, were meeting targets for completion, and were successfully concluded. Although they both may not be justified solely in economic terms,

and individual subprojects may have been chosen for strong local political considerations, they have important social and community rationales.

The team agrees with the recommendations of the Secretariat and USAID that the Markets Project [492-0365] be discontinued. Roads and schools subprojects should be continued. This study does not attempt to evaluate smaller rural markets programmed for construction in 1989 and 1990. However, their justification should be based on social/health benefits, as well as economic criteria. The team believes that the Secretariat does not possess the mechanism to monitor loan repayments, which were scheduled but which have not yet begun. The evaluation noted that local government units often have the capacities to build and maintain roads and schools, and that more authority should be delegated to them for these purposes.

The institutional/managerial systems that support these subprojects have been in a state of flux because of the political and administrative changes. Leadership has been under constant change, institutional relationships unclear and changing, and adequate and timely coordination has been sporadic. Program management has been spotty. Although subprojects are constructed in accordance with approved specifications, progress is slow. Relationships between the Secretariat and USAID at a technical level are close, but the past history of administrative issues is only slowly changing. If judged by a set of criteria of effectiveness based on standards, quantity, timeliness, and costs, the Secretariat must be seen over the eight year evaluation period to be marginally effective although has vastly improved in recent months. The team recommends that some of these more basic issues be addressed at high Philippine and U.S. levels, and before undertaking any major new initiatives.

Technological skills generally exist at local levels sufficient to carry out roads and schools projects, which are of standard specifications, but are lacking for larger, more complex construction. There has not been technology transfer from the Secretariat to local governments, which often already have this capacity. This transfer has also not taken place within the Secretariat because the in-house consultant (TAMS) lacked counterparts with appropriate technical backgrounds. These consultants have, however, assisted in the preparation of technical guidelines and reviewed construction documents. Technology transfer to local governments should be an important component of future project activities.

Current financial practices have reduced the peso pipelines but some problems remain in the financial reporting systems. Payments to contractors have been inordinately long, although recently improved. The team has recommended that new, more effective, systems be studied and implemented.

The Secretariat has suffered from discontinuous leadership and a clear goal and purpose, both problems primarily stemming from recent political events. The Secretariat's management recognized these problems and for several months has engaged in an internal self-examination of both the problems and the Secretariat's future direction. The Secretariat's staff have produced several major draft planning/policy documents on these issues, which in our opinion, are distinct improvements, and which if implemented will lead to enhanced capacity of the Secretariat.

Other major recommendations are:

The Secretariat should:

- *Continue to work at appropriately high levels of government to establish a new sense of purpose directed toward developing local government capabilities for subproject design, construction, contract management, and evaluation.

- *Regularize the Secretariat's role in relation to cooperating government agencies.

- *Establish strong, continuing leadership.

- *Build its capacity to respond to the field through regional field offices.

- *Increase the Secretariat's internal systems capacities, including technical engineering and evaluation.

- *Concentrate on simple, "fast track" subprojects, especially schools and roads.

- *Carry out regularized joint evaluations.

- *Release peso interest earnings for trial grants to carefully selected local governments for simple construction.

- *Emphasize social and environmental/health benefits when considering applications for market centers.

USAID should:

- *Step back from internal project management consistent with prudent oversight of public monies.

- *Reduce the dominant role of USAID field engineers, while building Secretariat and local government internal capacities.

- *Carry out oversight through monitoring adherence to established standards, guidelines, and procedures, rather than direct interventions.

Lessons learned include:

- *The need to establish rationalized, general project management units without which it will be difficult to absorb increases in donor projectized funds.

- *Reaffirmation of the longer term problems, associated with shorter term advantages, of establishing separate bureaucratic

elements to manage specific projects.

*The inherent tensions between the need to manage a centralized organization and thus projects and procedures with the requirement to be responsive to local, individualized needs.

*The need to pay as much attention to the socio-economic context as to the technical capacities.

*The saliency of leadership in project effectiveness.

Had the team conducted our evaluation a year ago our detailed findings would have probably been materially different than those presented in this report. Although the findings on physical construction would have been similar, we would not have been able to cite the significant amount of progress that has taken place within the Secretariat on improved procedures, and on formulating plans and policies to improve the effectiveness of their overall operations. Many of these revisions in operational procedures are still under review and have not been formally adopted to date. We feel very strongly that they need to be ratified and clearly understood by all the relevant parties before the Secretariat embarks on its expanded 1989/1990 program.

ABBREVIATIONS

AA	-	Advice of Allotment
AP	-	Action Plan
CMES	-	Construction Management Engineering Services
DPWH	-	Department of Public Works & Highway
DBM	-	Department of Budget & Management
EMK	-	Equivalent Maintenance Kilometre
ESF	-	Economic Support Fund
ESFS	-	Economic Support Fund Secretariat
FW	-	Funding Warrant
LGC	-	Local Government Code
LGU	-	Local Government Units
MTP	-	Medium Term Plan
NEDA	-	National Economic & Development Authority
NIRA	-	National Internal Revenue Allocation
NMIC	-	National Meat Inspection Commission
PAP	-	Philippine Assistance Plan
PBAC	-	Prequalification Bids & Awards Committee
PDAP	-	Provincial Development Assistance Project
PEVAC	-	Prequalification, Evaluation, & Awards Committee

PDP - Provincial Development Plan
PMC - Project Management Committee
PMO - Project Management Office
RDC - Regional Development Council

EXCHANGE RATES

1983	/9.50 to 14.05
1984-85	14.07 to 18.48
1987-88	20.04 to 20.08
1988-89	21.37 to 21.60

There is no appreciable black market.

I. PREFACE

This study, completed in the course of six weeks, is an effort to review a complex set of processes and institutional relationships that are incorporated in four major projects. The diverse number of nationwide sub-project activities supported through obligation of some \$291 million have made the task especially daunting. More importantly, for a variety of reasons discussed in the report and in its appendices, these relationships have shifted in intensity over time. As the objective situation in the Philippines has changed since the inception of some of these projects beginning in 1980, so have aspects of these programs and the needs to which they respond.

The team has attempted to analyze and make recommendations that could immediately strengthen the projects and their institutional base. It also felt that it was equally imperative to suggest more substantial changes in the rationale of some of the projects, changes that could further the fundamental objectives of both the governments of the Philippines and the United States: to improve the conditions of the affected Filipino citizens.

The team would like to thank the members of the Economic Support Fund Secretariat, who provided us with space and who put up with our constant badgering with good will, and to the USAID staff who were both open and helpful throughout the study. It would be amiss not to mention our meetings with a wide variety of central government staff and local officials at the provincial and municipal levels who provided us with candid assessments of their needs and hopes, as well as their problems. Appendix 2 lists provinces visited, but individuals have generally remained anonymous in this report.

The main body of the report is a team effort. As in any such document, each member may have preferred a difference in nuance or stress in the wording of a conclusion or recommendation. The essential elements of the report, however, represent the combined views of the group.

Each member has been encouraged to extend his or her views in one or more appendices on some subject germane to the topic under review, but which for reasons of space could not be discussed extensively in the main text, which we have attempted

to keep as short as possible. These sections, when individually authored, are so signed and represent personal views, even though they may reflect team conclusions.

On behalf of the Evaluation Team

Louis Berger International, Inc.

and

Checchi & Company Consulting, Inc.

II. METHODOLOGY

This evaluation team was composed of six individuals, three Filipino specialists and three Americans (whose biographical information follow). They each spent approximately six weeks conducting this evaluation in country. Of that period, approximately two weeks were spent in the field outside Manila.

This study was conducted in a collaborative style with support and encouragement from both the USAID and from the Secretariat. All individuals were entirely cooperative in sharing time, information, and opinions. The study began with the American staff assembling for a day in Washington, D.C. and meeting with individuals in AID who had been associated with the projects. The field study was inaugurated with a two-day seminar outside of Manila in which some forty Filipino and American staff of the Secretariat and USAID participated, and during which all were encouraged and had ample opportunities to present views and opinions. This informal but highly instructive meeting set the tone for the study that followed.

The complexity of the four projects evaluated, the magnitude of the total funds approved, and the large number and broad geographic diversity of the types and locations of specific subprojects precluded any analysis based on statistically reliable data in the time allotted. Rather, given the process nature of the evaluation, it was determined that an equally productive approach was to combine site visits with a review of files and interviews with the Secretariat and USAID staff. Interviews were then requested with a diverse staff of Philippine Government organizations with which the Secretariat necessarily interacts, as well as with some operating similar activities. The views of the Asian Development Bank and the World Bank were also sought.

In order that all members of the team visit the area located in Region III, the vicinity of the U.S. bases that received priority attention when the projects began, the team divided into two (each team included all represented disciplinary skills), and each spent a work week in Luzon. After a joint meeting in Manila on their return, the team divided into three, each pairing the Filipino and American with similar skills and interests), one visiting the Bicol region of Luzon, one the Central Visayas, and the third Mindanao. Overall some 47 municipalities, 8 component cities and 4 Highly Urbanized Cities, all located in 16 provinces, were visited.

As of March 31, 1989, there were 3,642 subprojects completed, under construction, or authorized for implementation under previous ESF and present projects as follows:

Type	Completed	In process	Authorized
Schools	2,293	24	94
Roads	1,122	39	16
Markets	13	16	3
Other	8	11	3
Total	3,436	90	116

[Including project numbers 492-0342/0343/0348/0361/0365/0374]
Source: USAID

Of these subprojects, the team visited 130 projects, including 61 schools, 32 roads, 19 markets, 3 slaughterhouses, as well as hospitals, health centers, and resettlement areas (see Appendix 2). Although this represents a minuscule percentage of the total completed and continuing subprojects, a significant number of markets, 19 representing 65 percent, were inspected. The team is convinced that they have observed a reasonable cross section of all types of subprojects in all stages of completion: some that were highly successful, as well as some with serious defects. A number of planned sites of schools and roads were also visited, and several World Bank projects as well. Trips were conducted with Secretariat staff and/or with USAID and District Engineers, as well as independently. The team met with a number of local government officials, including governors, mayors, technical staff, principals of schools, as well as local people.

The evaluation analysis in this report is analytically divided into two divisions: The functional products of the projects with the managerial systems that support them, and the institutional analysis of the critical participants. Although there are different numbered accounts for the four projects to be evaluated, some of the subprojects (e.g., markets) are included in more than one project. These activities fall into four subproject categories. For analytical purposes, it is more appropriate to group the activities by type than by project, for the project differences are less important than the nature of the subproject activity itself. Three of these categories will form the framework for part of this report, thus providing for a more focused discussion. These subproject activities are: [1] markets and income producing activities, [2] roads, and [3] schools. A small group of other projects, such as health facilities, drainage, or resettlement areas, are treated with less intensity.

These subprojects, as well as the institutional and managerial systems that support them, are covered in the report section, "Progress Toward Project Objectives."

There are three major institutional components to these project reviews in that same section, and a fourth that will grow in importance. These are: the Economic Support Fund Secretariat (referred to hereafter as the Secretariat), USAID, and local governments, including those at the provincial, municipal, and barangay (village or urban ward) levels. A critical role is emerging for the Regional Development Councils, which reflect the needs of each of the 14 geographical planning divisions (including Metro Manila) into which the country has been divided. The analysis of the relationships among these institutions and their roles and capacities will form much of the substance of this report.

An evaluation of nine years of process should normally provide a continuous record of accomplishment. Extraneous to the projects, however, have been historic national events that have markedly affected project efficacy, as well as changes in leadership and priorities from the national to the project level. Although projects continued, the pace of implementation was affected, as well as perceptions of the efficacy of these projects internally and abroad. These important factors, discussed in the following section, influenced the approach that had to be taken to this evaluation, for discrete, coherent longitudinal data were lacking on the process.

This evaluation, the scope of work for which is appended to this study (Appendix 1), was specifically designed as a "process" evaluation, one that examines the working of the project's institutions within the context of the planning, budgeting, coordinating and support roles of various agencies. It was not intended as an "impact" evaluation, one that examines the effect of the projects on the intended beneficiaries. A separate impact evaluation will be conducted later. It is hoped that this evaluation will assist that complex effort. A joint process evaluation of the Project Design Project [492-0343] was conducted on March 15, 1983 covering the period July 1980-December 1982. A "status review" evaluation was carried out in September 1984 on the four projects included in this evaluation, as well as Elementary Schools [492-0342], Clark Access Roads [492-0348], and Rural Energy [492-0375]. All seven projects were ESF funded, and because all projects with the exception of Rural Energy are similar, the last is the only one excluded from this review. The two other earlier completed projects are only included because the types of activities relate to the later projects, the area is the same, as is their institutional base.

The separation of these two types of evaluations, process and impact, is both logical and necessary, although if time allowed an impact evaluation might have been conducted first. This study is also not an audit. Although a variety of detailed subproject documentation was examined, the intent was to draw lessons from that particular activity rather than to compute accounts or determine the efficacy of oversight procedures. Nevertheless, a number of specific issues were noted, and on which recommendations will be made.

The team would also like to acknowledge review of an internal Secretariat "Program Paper," which was received after this evaluation was drafted, and which emphasized many of the same long-term problems the team identified. Although the conclusions presented herein are those of the team's alone, many of these opinions seem widely held.

TEAM MEMBERS

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Mr. Dawson retired from AID in 1986 after twenty-two years of service devoted primarily to the planning and management of rural development, especially rural infrastructure, in Asia and Africa (Vietnam, Thailand, The Philippines, Kenya, and Liberia). Prior to joining AID, Mr. Dawson spent seven years in the private banking and finance sector. He holds a B.S. degree in Business Administration and an MPA in Development Administration.

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III. CONTEXT

The Economic Support Fund projects, and the Secretariat that manages many of them, have operated since their inception within a kaleidoscopically changed developmental and political context that have shaped their use, administration, as well as perceptions of their potential efficacy. Their past has helped shape their present, and will likely affect their future. There are essential questions about their purpose fundamental to their status within the Philippine government and to United States responsibilities for oversight.

A. The Purposes of the Economic Support Fund

Negotiated as part of the amendment to the Military Bases Agreement of 1979, and subsequently renegotiated in 1983 and 1988, funds totaling \$808.315 million had been obligated by December 31, 1988 in economic support of that agreement, and thus under AID's purview. Of this amount, \$251.315 million has been allocated for project assistance, the remainder for program support. Aside from \$51.190 million for the Rural Infrastructure Fund, managed by the Department of Public Works & Highways (DPWH), the remainder of project funds are under the administration of the Economic Support Fund Secretariat, itself partly financed under these project monies. The four projects included in this evaluation were authorized a total of \$299 million, of which \$195.288 million had been obligated by the above date. (See Statistical Data, Appendix 2). An additional amount in pesos from interest on these accounts has been programmed for project purposes by mutual agreement of the two governments. The mechanism for financing these projects more closely resembles that normally used for program assistance, rather than the more traditional mechanism used for project assistance. A detailed description of the process used is contained in Appendix 1, Page 4. In summary, U.S. dollars are remitted to the Government on the basis of quarterly project requirements and become available to them for use as free foreign exchange. They then provide an equivalent peso amount, which is deposited to a special account to finance project activities. As such, these pesos are no longer considered as appropriated U.S. funds and usual U.S. government cash management procedures do not apply to their use; e.g., the ninety-day limit on cash advances.

There has been a fundamental disagreement between the United States and the Philippine governments over the purposes of these monies. The Philippine government regards these funds as "rent" for base use, and in a period of rising Philippine nationalism thus believes that all such compensation should be managed by

that government with minimal U.S. involvement. Since, however, these funds are appropriated under the U.S. Foreign Assistance Act of 1961 as amended, the United States regards them as enhanced developmental assistance, and thus falling within normal AID regulations guiding the management of Economic Support Funds worldwide.

In spite of such programmatic differences, however, there is agreement between the two governments on project guidelines, which are:

- Strengthening local institutions to help the poor majority.
- Increasing and diversifying agricultural production.
- Integrating agricultural, industrial, and commercial development.
- Dispersing local infrastructure to assist access by the poor to basic facilities and services.
- Increasing employment opportunities and improving income distribution.
- Strengthening links between urban and rural centers.

B. Background to the Economic Support Fund Projects

At the inception of the agreement on base compensation in 1979, USAID was faced with a serious dilemma. Washington had indicated that the Mission would face a 25 percent staff cut over four fiscal years, while the ESF project increment to its budget was to be \$20 million in FY 1980, and \$30 million in FY 1981. Recognizing the problems connected with internal capacity to program effectively such funds and the need for a management and coordination unit within the Philippine government, USAID and the GOP agreed to the formation of the Secretariat.

The Philippine government subsequently directed, under Letter of Instruction #1030 of July 27, 1980, that the Secretariat be placed under a Management Advisory Committee, headed by Minister Imelda Marcos of the Ministry of Human Settlements, which would supervise the use of these funds.

President Marcos on October 26, 1984 signed Letter of Instruction #1434, shifting the responsibilities for oversight to the Office of the President and reconstituting the Management

Advisory Committee into an ESF Council as an advisory body to the President, but chaired by the Minister of Human Settlements with the Director General of NEDA (National Economic and Development Authority) as Vice Chair.

The period from 1983, beginning with the assassination of Mr. Benigno Aquino, Jr. the loss of confidence in the previous administration, the snap elections, and the EDSA revolution that followed, was traumatic for the Secretariat. There were attempts to circumvent regulations on subproject approval prior to the snap election, and implementation suffered. Following the change in governments, President Aquino on May 8, 1986 signed Executive Order 15, which transferred authority for oversight to the NEDA, which issues policy guidance to ensure that subprojects are in conformity to national and regional planning, and to prevent dual funding of the same activities.

Since the EDSA revolution, there have been changes in leadership within the Secretariat and discussions--in the Philippine government about the status of the Secretariat and its authority. These relate to basic issues of whether it should exist as a separate entity, and if so, what authority should it have, and if it were to continue whether it would remain administratively bifurcated: under the Office of the President for administrative matters (and this status determines maximum staff salary levels), and under NEDA for policy and program guidance. If it remains thus, the issue has been raised whether it is a "funding" agency, in which its authority is more curtailed, or an "infrastructure" agency, with broader powers. The questions have not been finally resolved, as a government reorganization is not yet complete. It is evident, however that as its authority expands, it is placed in greater competition with other Philippine agencies.

The Secretariat has grown from a staff of about 30 to its present level of 130 full time professional and support personnel, plus an additional 44 consultant engineer employees, of whom three are expatriates. All staff are temporary, and are retained on annual contracts. USAID provides funds for and concurs all staffing levels and salaries which are based on GOP regulations.

The work of the Secretariat does in part augment the mandate of other government agencies but does not duplicate the effort. It carries out functions that are closely related to, and must work in concert with, a variety of institutions, such as local and provincial governments, the Department of Public Works & Highways (DPWH--which also builds schools and roads, public

buildings, etc.), Department of Education, etc. Thus the Secretariat is essentially distinguished by its funding, not its program. However, other entities have been established to accommodate specific funding - such as PREMIUMED for World Bank rural infrastructure projects.

Since 1982, when the AID Inspector General criticized USAID for allowing Philippine accumulation of peso interest earned from these funds, there has been persistent U.S. concern over potential mismanagement of funds in the overall program. The growing general disillusionment with the Marcos government following the assassination of Mr. Aquino, including increasing questions of the obvious level and extent of such mismanagement, was highlighted in this program by the previous government's attempts to use these funds for election purposes in 1986, during which time funds were released to local government units for a larger number of unapproved subprojects. Such attempts were effectively countered by USAID and the Secretariat. The change of government shifted the nature of this concern but, because of such prior attempts, did not totally eliminate it. Some projects were halted, not to be restarted. The reprogramming of these funds, however, beyond the control of the Secretariat, has led to some residual concerns and criticisms by those affected. Philippine private construction contractors and engineers, and some municipal and provincial governments, still (unfairly) blame USAID and the Secretariat for their loss of investments in these subprojects.

As a result of these national and local traumatic events, USAID oversight has necessarily been more intense than previously anticipated, with a complex series of review steps, which coupled with those of a Philippine government anxious to erase past errors, have effectively slowed project accomplishments, and led to increasing frustrations on the parts of elements of both governments. To the United States, experience with the past regime has led to more prudence with the present. To the government, the present regime is being made to suffer for the venality of the past administration.

IV. PROJECT DESCRIPTION AND STATUS

A. Municipal Development Fund (492-0361)

1. Description: The Municipal Development Fund Project was authorized in FY 1981 for \$70 million in grant funds to assist selected cities and municipalities in Regions I and III improve social and economic conditions by financing a

range of development activities in response to locally established priorities. Grant funding was to be provided for institutional development and public sector infrastructure activities of a non-income generating nature. Loans from the ESF Secretariat to the local government units were to be provided for public enterprises and income-generating infrastructure activities. The subproject selection criteria required that project-funded activities: (1) be consistent with existing city or municipal development plans; (2) be technically sound; (3) be targeted on the poor; (4) ensure provisions for operations and maintenance costs; (5) provide economic solutions to problems involved; and (6) assure that income generating subprojects be self-sustaining in terms of debt service as well as operations and maintenance costs.

2. Status: To date, \$36 million has been obligated for subprojects in 23 cities and municipalities, and as of March 31, 1989, a total of 51 subprojects were included in the approved list of subprojects, with 45 located in Region III (the US military facilities area) and six in two provinces in Region I (Benguet and La Union). Of this total, 25 subprojects have been completed, eight are virtually complete, 18 are between 41 percent and 99 percent complete, and one is to be started within the year. The 51 subprojects consist of 20 schools, 15 public or special markets, six roads, five slaughterhouses, three drainage/flood control facilities and two solid waste management projects. No new subprojects are anticipated under the project. The PACD (Project Activity Completion Date) has been extended to December 31, 1990 to allow for the completion of on-going subprojects.

B. Regional Development Fund (492-0374)

1. Description: The Regional Development Fund Project was authorized in FY 1982 for \$45 million GOP to address poor socio-economic conditions in the reverted baselands and in selected provinces in the vicinity of the U.S. military facilities. This assistance was to be provided through the construction of high priority, growth-related infrastructure subprojects implemented primarily by provincial governments. The planned activities included, inter alia, schools, roads, public markets, health facilities, water supply and drainage projects and solid waste disposal facilities.

"The "core" RDF program was initially focused on resettlement and infrastructure projects in the six provinces near the U.S. military facilities. The project

was subsequently amended to carryout the project's infrastructure activities on a nation-wide basis. Also, a separate project component was developed and added for a special elementary school and rural road program that would also be nation-wide in its coverage. As a rule, subprojects carried out under the elementary school and rural roads program component tended to be smaller in magnitude and less complex than those under the "core" program component."

Through a series of subsequent authorization and Project Agreement amendments, the total level of project funding authorization has been increased to \$190 million and current obligations total \$138 million, including \$21 million of Development Assistance funds. The current PACD is September 30, 1990, but a two year extension is planned.

2. Status: Under the initial "core" project, a total of 44 subprojects have been undertaken in the vicinity of the bases; with 29 having been completed and 15 at various stages of construction. Under the special nationwide school and road component, there were 2,481 school buildings and roads completed as of March 31, 1989. This represented 99 percent of the planned component total. For 1989, a total of 93 secondary schools and 21 other infrastructure subprojects are planned for implementation.

C. Markets Project (492-0365)

1. Description: The Markets Project was authorized in FY 1982 for \$21 million to the Philippine Government to improve public market operations through technical assistance, training, and credit for the rehabilitation or construction of up to seventy-two markets in cities and municipalities with populations in excess of 40,000 persons. The combination of management assistance, training and infrastructure was expected to reduce poor market administration and the number of inadequate and unhealthy market facilities.
2. Status: To date only five market subprojects have been undertaken, of which only three have been completed (Legaspi, Urdaneta, and Kabankalan). The two in Dumaguete City and Tuguegarao are approximately 75 percent complete. Due to a number of factors, including a major deobligation of project funds, additional market construction will not be undertaken under this project. At present, a total of \$9.2

million has been obligated and appears sufficient to cover the remaining project costs. The current PACD is September 30, 1989, but may require an extension of up to a one-year to allow completion of the two projects still under construction.

D. Project Design Project (492-0343)

1. Description: The Project Design Project was initially authorized in FY 1980 for \$5 million to facilitate the identification and development of a variety of subprojects for ESF and to support the management of the ESF program. The project has subsequently been amended to increase the level of project obligations to \$12 million. USAID recently agreed to extend the PACD to August 30, 1992 to coincide with the planned PACD extension of the RDF Project.
2. Status: As of May 31, 1989, project commitments amounted to \$9.5 million and were apportioned among the major project sub-components as follows:

<u>Project Components</u>	<u>Commitments</u> \$	<u>Expenditures</u> \$
a. Project Management <u>1/</u>	4,956,794	3,421,820
b. Design/Planning/Trng.	2,949,905	2,041,278
c. Rural Energy TA <u>2/</u>	1,549,065	1,412,780
Total	9,455,764	6,875,878

1/ Provides partial support for the operation of the ESF Secretariat. U.S. support for this component has averaged 41 percent of the total Secretariat's operating costs over the past six years (1983-1988).

2/ This project component has been completed and no new commitments are being incurred.

V. THE PROJECT CYCLE

There are no fewer than ten agencies involved in, or see themselves as being involved in, the (ESF) subproject cycle: The vetting of individual subproject activities such as schools or roads. The major actors naturally are the Secretariat and USAID, each of whom have prepared the most subproject cycle flow charts

reflecting actions with which they are most concerned. USAID, as a donor, and the sponsor of the Secretariat, needs to approve guidelines and procedures to assure compliance with controls placed on foreign assistance by the U.S. Congress.

USAID and Secretariat flow charts (numbering some 20) were first intended to be included in this report as an Appendix. The Team's evaluation analysis, however, continued to reveal additional participants, with their consequent presentation of other GOP agency guidelines and flow charts reflecting conceptions of their involvement. The team came to realize that the subproject cycle for ESF subprojects could only work efficiently in as timely a manner as intended if implementation were confined to the two featured agencies, USAID and ESF. This is not presently possible within the Philippine bureaucracy. Therefore, only one subproject cycle chart has been included in Appendix 2 showing both USAID's and the Secretariat's depiction of the subproject cycle; they are presented with the caveat that they are not formally approved and are subject to the continuing revisions that have plagued the program cycle since its inception. The remaining flow charts for subcycle activities are mostly included in the Secretariat's contracting guidelines.

The evaluation team concludes that there is no "approved" procedure. This obstacle to attaining timely implementation and management of ESF subprojects is not however unique to the ESF for similar problems confound all foreign donors and individual government department projects. Donors have tried to resolve this problem by funneling most of their respective aid funds directly to an established line department which has the established procedures and legislative delegations of authority in place. To assure timely implementation, staff within those departments are transferred to a newly created life-of-project office (Project Management Office, see Section VIII and Appendix 3) responsible only for that donor's project implementation. This implementation mode is not followed for ESF projects nor for some other donor sponsored activities. Thus the subproject cycles ideally developed by USAID and the Secretariat have no authority over the government agencies. Those agencies, however, can impose their authority and regulations over ESF actions. In short, there is now no ESF subproject cycle that has been prepared and mutually accepted by all the participating entities.

Sincere and productive efforts by USAID and the Secretariat in 1988 led to agreement on reduction of USAID's "50 steps". Based on proposed procedures, USAID's review and approval of ESF financed activities was reduced 70 percent over prior involvement.

The USAID review/approval process represents 37 work days out of the average of 740 work days for the complete process of subproject approval to contracting.

Since the existing uncoordinated subproject cycle system must be followed until such time as USAID, the Secretariat and involved Philippine agencies can jointly agree and accept a single such cycle, it is prudent to look at government concerns about ESF projects and their projected roles in the ESF subproject cycle.

NEDA's Project Cycle

The NEDA, (National Economic Development Authority) the country's central planning agency, is the originator and repository of development plans -- regional, sectoral, city etc. -- which have or are being prepared in response to national development goals and policies. Proposed donor projects and programs are reviewed by NEDA for their contribution to, and compatibility with, those national plans and particular programs developed and approved by the NEDA Board, which has adopted an infrastructure program for 1988 to 1992. USAID's ESF infrastructure program goes to NEDA, where it is reviewed per established guidelines and criteria. With NEDA's approval of the ESF program, the ESF grant is earmarked for financing the subprojects within that program. The Regional Development Councils, meanwhile, submit their endorsed programming list of prioritized subprojects developed by local governments. These subprojects are again reviewed by NEDA, and the local governments are authorized to proceed with detailed subproject development and implementation.

The NEDA's involvement in the project cycle is probably the most important after that of USAID and the Secretariat. Other project participants, however, are involved in varying degrees. These participants include but are not limited to, the following:

REGARDING FUNDING:

1. Department of Budget and Management
2. Commission on Audit
3. Regional Development Councils
4. Operational Budget of affected local governments

REGARDING LOCAL GOVERNMENTS/PROCEDURES:

1. Conformity with contract implementation guidelines and the establishment of implementation committees.
2. Conformity with local development plans and priorities.
3. Need to demonstrate acceptable implementation staff.
4. Need to coordinate with Department of Education.

REGARDING ENGINEERING PLANS AND DESIGNS:

1. Consistency with established national (DPWH) plans and standards for schools and roads.
2. Consistency with NMIC (National Meat Inspection Commission) slaughterhouse design standards.

Flow charts of micro actions by the above agencies were given the team, but only contributed further to the Team's confusion about the obvious complexity of the ESF subproject cycle. The team endeavored to track the entire ESF project through the maze of the involved government agencies, but reluctantly admits to being unable to agree on what the cycle looks like if all agencies are included in a single flow chart. The team concludes that the Government, USAID, and the ESF Secretariat should, at some early time, officially agree on what agencies are now in the subproject cycle through cooperative and conciliatory discussions, those necessary to the system, and what roles each will play.

Since the team's primary focus is the ESF Secretariat and its relations with USAID, the following paragraphs summarize Secretariat actions in the project cycle.

ESF Subproject Cycle

1. Subproject Identification
 - a) Subproject proposals are initiated in the local government units. They prepare the subproject identification document based on the pre-feasibility criteria. It contains the project description, initial cost estimate and how the subproject contributes toward achieving the national development goals.
 - b) These documents are submitted to the Provincial Development Council, which validates and endorses

them to the Regional Development Council (RDC).

- c) The RDC further evaluates them and recommends them for approval to NEDA.
- d) The NEDA evaluates the documents in accordance with the development plan and endorses the subprojects for funding.
- e) The Secretariat consolidates and identifies the priorities of the local governments among the projects listed.

2. Subproject Development

- a) The Secretariat allocates funding, identifies subprojects eligible for funding; submits and coordinates the list with USAID.
- b) USAID approves the subproject allocation; evaluates and concurs in the list of Secretariat endorsed subprojects.
- c) Office of the President - evaluates Secretariat endorsed subprojects; considers approval of list submitted.

3. Feasibility Studies/Detailed Engineering/Consultants

- a) Secretariat commissions technical services for feasibility studies and detailed engineering. It coordinates with local government on studies and designs.
- b) USAID concurs with Secretariat on the hiring of technical services; evaluates studies and completed designs.

4. Project Implementation

- a) Secretariat completes bid documents; evaluates prequalification of contractors; supervises contracting for construction services with local government; approves contracts; monitors implementation; executes subproject agreement with local government; directs payments to contractor; provides construction management services.
- b) USAID evaluates construction contracts; monitors the contracting procedures; monitors progress of

construction; approves some payments to contractors.

- c) Local government contracts for construction services; executes subproject agreement with Secretariat; monitors subprojects; endorses contractor payment claims.

The importance of establishing a subproject cycle with the timely participation and concurrence by all involved Philippine agencies is imperative. To leave one agency out of the system can cause severe project implementation and completion problems if the omitted agency has legislative review and approval responsibility. The impact of such an omission is illustrated by the National Meat Inspection Commission position regarding slaughterhouse planning and construction. [See Section VI B, 2. "Technical Management".]

VI. EVALUATION ANALYSIS

This section will first cover the progress attained toward project objectives in terms of project components: markets and other income generating activities, roads, and schools. It will then deal with institutional/managerial systems, including program, technical and financial management aspects of such progress. This will be followed by institutional analyses of the Secretariat, local governmental units, USAID, and the Regional Development Councils.

A. Progress Toward Project Objectives

1. Project Components

a. Public Markets and Other Revenue Generating Infrastructure Activities

In assessing the financial viability of revenue generating projects, the evaluation team visited 17 public markets, 2 special markets (one livestock and one for wholesale produce), 3 slaughterhouses, and 2 solid waste disposal facilities. This sample included 65 percent of all markets completed or under construction. For comparison purposes, older non-USAID funded markets and one IBRD financed market were also inspected. An overall summary of the team's observations, together with a

detailed analysis of the Legaspi Public Market, are contained in Appendix 8. We did not attempt to differentiate between those financed under the RDF, the MDF or the Markets projects, as our findings, conclusions, and recommendations are generally applicable to all.

We found, in general, that subprojects of a revenue-generating nature were not achieving their planned Project Paper purposes and that they were not generating the level of income that had been anticipated. As a result, the anticipated loan recovery rate does not appear attainable. Our specific findings, conclusions and recommendations are as follows:

Findings:

[a] A large proportion of the markets already built have been financially overdesigned and may be too large or inappropriately designed to be economically sustainable. The initial project design anticipated that average markets would contain approximately 1,500 square meters of space and cost ₱2.0 million in 1981 prices. Instead, the average contracted costs of 27 markets was ₱13.5 million, without subsequent price escalations, which often were considerable. The average size of the markets actually constructed was also significantly larger than anticipated in the project design.

[b] As a result of over or inappropriate design a large proportion of the markets had major areas (up to one-third) of unrented space at the time of visit by team members. Markets with second floors were at the time of visit being used for other, non-income activities because they could not be rented. Those markets that had second story capacity and did not install them because of funding problems, still they had to absorb the increased structural costs in any case.

[c] Collection rates of stall rentals were significantly lower than expected; the better managed markets were averaging an 80 percent collection rate, and where management was less diligent, collections were as low as 50 percent. Some tenants were in arrears in rent payments for as long as two to three years, and local governments appeared reluctant to evict delinquent stall holders and rent them to new tenants.

[d] In many instances, even if there were 100 percent occupancy and a 100 percent collection rate, the rental rates would not generate an income stream sufficient to cover operating costs and debt servicing costs -- even if the income from "cash tickets"¹ is included. The project paper, however, had anticipated an

¹ Cash tickets are payments made on a daily basis by vendors using the area around the immediate market periphery.

internal financial rate of return of 28 percent. In the case of one center that in Legaspi, the maximum possible income stream the new market is less than the debt servicing costs alone.

[e] Market operating costs are running significantly higher than projected in project feasibility studies. Much of this increase, however, can be attributed to the high rate of Philippine inflation over the past six years.

[f] In most cases, current market management practices were not addressing the health and environmental problems that the new markets were intended to correct. Planned water and trash disposal facilities were also either not operational or completely lacking (see Appendix 8). This needs to be addressed in any subsequent implementation of market sub-projects.

[g] No evidence was found indicating that any of the markets had begun the payment of the loan amortization payments stipulated in financing agreements between the local governments and the Secretariat. Upon questioning, Secretariat staff and local officials were frank in admitting that payments were not being collected. Further, there was no evidence to indicate that the loan servicing agreement between the Secretariat and the Philippines National Bank was in fact operational. In fact, some question exists as to whether the Secretariat has the legal capacity to make and enforce loans made directly with the local government. We understand that at least one legal opinion has been given that they do not. The same opinion, however, indicated that this problem could be resolved if the loans were made through a "conduit bank."

Some local officials were not aware that their municipalities had contracted for such loans, as the administrations changed after the Revolution, and some others who were aware were resentful of varying loan terms in different municipalities under different projects and locations.

[h] The development of improved market management packages and the training of market staff envisioned in the original project design have not taken place.

[i] The financing arrangements used for market construction and rehabilitation do not appear to be in accordance with the guidelines contained in the amplified project descriptions (Annex 1) of the Project Agreements for either the Markets Project or

the Municipal Development Fund Project. Further, Section IV of these agreements provided that "The MAC and AID shall agree on a system of Financing Packages in subsequent implementation letters." A careful review of the Mission's Project Implementation Letters fails to indicate that a PIL approving an agreed set of financing guidelines has ever been issued. As a result, there are major variances in the loan-grant financing ratios and in loan terms that are significantly different than the illustrative financing packages contained in the original project documentation (Project Paper and ProAg).

The vast majority of markets were financed with a combination of a grant and loan; the typical agreement providing for 30 percent loan and 70 percent grant, except in the case of the Markets Project in which all markets were to be 100 percent loan financed unless otherwise agreed to in writing. We have not been able to locate any documentation between AID and the Secretariat changing the original financing provisions. A similar situation exists with respect to loan terms. Most of the markets appear to have received repayment terms of 25 years, while the project documentation indicates a range between 10 to 20 years, depending on the type of project and the financial classification of the local government awarded the loan.

[j] In all fairness to the Secretariat, a review of USAID files indicate that the Mission has not always been formally responsive to Secretariat communications noted above. On further examination, it became apparent that many negotiations on markets have been verbal, and that there is no formal record in the Secretariat of USAID's position on these issues. Communications should be improved.

[k] Construction of the seven slaughterhouses financed under the Municipal Development Fund project was halted in November 1986 by the National Meat Inspection Commission (NMIC) because they found that these facilities did not comply with their specifications. As a result, none of the seven have been completed, and some are already beginning to show signs of serious deterioration (see Section VI A 2(b) - Technical Management). Even if the construction problems were resolved, the existing legislated fee structure allowable for processing animals is so low that there is serious doubt that slaughterhouses could ever become financially self-supporting. In many municipalities older facilities lose money.

[l] Neither of the two solid waste disposal facilities visited were operating in the manner intended (see Appendices 6 and 7). One was not yet operational even though construction had been completed for over three years (La Union). The reason cited was

that the excess-property, project-provided equipment was not appropriate. In another instance (Olongapo), the crawler tractor provided had been diverted to other work, the conveyor system for sorting out recyclable materials was broken, and a motor had been stolen. As a result, the facility is operating as a refuse dump, rather than a solid waste disposal system, with potentially important environmental problems. Appropriate operations and maintenance procedures are currently being designed into a manual for the subproject.

Conclusions

[a] On the basis of the large sample of subprojects examined, it is the team's consensus that revenue generating subprojects were the most trouble prone of all subproject activities, and that they not developing the level of income necessary to make them financially sustainable as originally forecasted, nor were they always meeting their health and environmental objectives. This study does not attempt to evaluate smaller rural markets programmed for construction in 1989 and 1990.

[b] The team doubts that most of the markets visited will ever become solvent unless a concerted series of actions are undertaken by the central government to address the problems noted above. Some markets may never be able to generate income sufficient to cover debt servicing and operating costs. Using the Legaspi market as a case in point, we have identified the following factors that prevent it from becoming solvent in the foreseeable future. We strongly suspect that these factors are generally applicable to all income-generating subprojects.

- A high rate of inflation that drove up actual construction costs by 69 percent between the time of the feasibility study and actual construction.
- A political climate during the initial stages of market operations that reinforced poor management practices and a rate structure for stall rental that is inadequate.
- An income stream that will not cover loan servicing and operating costs. Even at 100 percent occupancy, with all stall rents being collected on time, the present rate structure would only create an annual gross income of approximately ₱1.85 million. When added to the income from "cash tickets" from ambulant vendors and

the income from the rent of a prior existing structure, the maximum annual projected gross income possible is only ₱2.6 million. Based on actual figures from 1988, annual operating and debt servicing costs would approximate ₱3.85 million, producing an annual operating deficit of ₱1.25 million without any provision for a sinking fund for market replacement at a later date.

[c] Compared to schools, roads, and other non-income generating projects, markets and other income-producing activities are neither quickly constructed nor quick disbursing projects. On average, they take one year longer to complete. Since this average is calculated on completed projects alone, the actual average would be significantly higher when stalled projects, such as slaughterhouses, are included.

[d] Markets make up less than one percent of all on-going or completed ESF subprojects; financially, they constitute about 14 percent of all subproject costs. Although not actually computed, other income generating subprojects appear to be an even smaller number. Although the demand for markets maybe high, local estimates for revenue generation may be over-estimated, and cost recovery factors need to be scrutinized or restructured.

[e] The probability of failure for income generating subprojects appears to be highly proportional to the complexity and magnitude of the activity undertaken. Those activities that require improved management organizations or more intra-governmental coordination for their effective operation are more prone to failure than those where staff and systems are already in place, e.g., schools, health facilities, and roads.

[f] A legal question exists as to whether the Secretariat has the legal capacity to enter into loan agreements with municipalities. If this is in fact the case, the existing lending agreements with the LGU's may not be enforceable. Even if such a capacity exists, the Secretariat does not appear to be an appropriate organization to enforce and collect loan payments.

[g] The centralized manner in which subprojects are planned and implemented, together with the changes in the political environment, have created a situation wherein the current local administrations do not feel a high degree of ownership and responsibility for subprojects initiated prior to the time they took office. As a result, when problems develop during the construction or operational stages, there is a natural inclination not to pursue their expeditious resolution.

[h] To engage in geographically dispersed complex projects, the Secretariat had to resort to standard designs, which may not be fully responsive to local needs, which in the case of markets (as opposed to schools) require financial deftness of design.

[i] The changing personnel in both USAID and the Secretariat, when coupled with the absence of formal records, hinders close collaboration between the two organizations and leads to misunderstandings on complex, longer-generating income-producing projects.

Recommendations

[a] Proceed with the termination of the existing Market Project (492-0365) in September 1989 as planned.

[b] Do not initiate any new income generating projects other than those already programmed until such time as a plan of action has been developed to address the problems with the existing program cited in the Findings Section. In general, we would support the type of actions proposed in an internal staff study prepared by the Secretariat dated December 5, 1988 entitled a "Proposed Framework for the Recovery of Economic Support Fund Loans to Local Government Units".

[c] If it is determined that there is a continuing requirement for the financing of income generating activities, use ESF funds to establish a special credit facility for this purpose with a financial institution such as the Land Bank or the Development Bank of the Philippines, where there is a greater existing capacity to conduct the economic evaluation of potential loan projects.

[d] As required under Section IV of the Project Agreement, formalize the project's credit arrangements through the issuance of a Project Implementation Letter describing the agreed financing terms.

[e] Ensure that the planning and fiscal organizations of local government are aware of the detailed provisions of any loans, and that they have studied the terms and financial implications of

that they have studied the terms and financial implications of their involvement.

[f] In planning markets, try to ensure they are not "over-sized" and that they have sufficient land around them to provide the maximum space to "cash ticket" holders, who often provide the municipality with more income than the stallholders. (See Appendix 8)

[g] Consider supplying waste water treatment for markets already constructed on a grant basis to alleviate potential environmental problems.

[h] Markets may be considered a social good. New market feasibility studies should give consideration to such social benefits - especially with consideration to the degree of cost recovery.

b. Roads

During two weeks in the field, the evaluation team visited 32 completed roads in 16 provinces, as well as a number planned for improvement. Roads as well as markets, schools, and slaughterhouses were arbitrarily selected from a computer printout. The six regions visited were those providing the most projects accessible in the time available, subject to security considerations, and to provide diversity of region and conditions.

Findings

[a] Some projects selected were funded under USAID projects other than the four designated for evaluation. This, however, did not affect the team's observations, for the project results are similar. In addition, all local government officials interviewed were not interested in and aware of project numbers, but only in rapid access to unencumbered funding. They were also obviously frustrated, by the massive hierarchy of the project approval, funding, and construction process. All felt they could "do it better," and be more responsive to local needs, if the financial allocations were passed directly to them to finance and manage their own priorities (this assumes that they would have the legal authority to do so).

[b] With the exception of a few high volume roads, most of the project roads visited were barangay and rural access roads connecting to the principal road system. Others were short "gap filling" projects, having lengths under one kilometre, but obviously being essential to a continuous road network. Some projects were clearly politically motivated. As explained to the team, each area had to share in the benefits of the local administration. It was considered better to build two one-kilometre, unconnected roads, than one two-kilometre continuous road. One major link road subproject planned in Nueva Ecija of 14 kilometers joining two towns will only complete three kilometers at each end, since the two mayors are at odds with each other.

[c] The team doubts that most of the subprojects could survive a basic cost-benefit economic analysis, although each may have had social, community or political justification. None seemed integrated into urban and regional plans considering growth, population, or traffic projections; none of the Municipal plans examined provided any written rationale for any priority project (although obviously some such explanation was evident in the minds of those who proposed the plans to higher authorities).

[d] The Department of Public Works and Highways (DPWH) administers the government's funding for schools, roads, public buildings and water resources projects; it also estimates and applies engineering and construction procedures and regulations. The DPWH administers and implements projects by means of a decentralized, technical organization to oversee and monitor project activities spanning governmental units from barangay roads to national government buildings. A DPWH district engineer's staff, for example, will work in regular consultation with provincial and municipal planning and engineering staff on all variety of government-funded projects, and most probably on ESF projects as well. Although paid from different sources, both public and private, there appears to be a functioning, cooperative, technical fraternity involved in all public works activities, including ESF project implementation.

[e] The Secretariat's role in the project system was discussed with local officials. Many were not well-informed as to the exact function of the Secretariat, particularly since it was only a part of the vast review and approval network established. Several officials indicated that they would rather work with the USAID directly, since it "could react in less time than the Government of the Philippines' agencies." One governor suggested that all funds be programmed through non-governmental organizations to avoid red tape.

[f] Both large and small government units were visited; engineering staff were interviewed at both levels. There is, as noted above, an overlap of engineering talent between the DPWH and the municipalities. The DPWH City Engineer is an ex officio member of the city engineering organization. Cooperation and pooling of talent is apparent. In one city, the city engineer is paid by the city but is a permanent employee of the Department.

[g] The funding and administration of barangay roads rested with the Department in the early ESF program. This was clear since the Department staff led the team on visits to earlier (1981-1984) roads. At some point, however, the barangay roads became the responsibility of the municipality. More recently the responsibility was returned to the Department.

As part of the Government's effort to decentralize, Memorandum Order 175, May 1988 provided for the establishment of municipal committees (Prequalification, Bids and Awards Committee (PBAC), and a Project Monitoring Committee--PMC) to qualify and select contractors for government funded projects.

[h] The road maintenance capabilities of the DPWH appear adequate to keep the national highway system functional. The provincial and municipal maintenance agencies, however, seem lacking in the equipment and funding resources for its purchase. Decentralization may exacerbate these problems unless countermeasures are taken. In one city, we were told that non-economic considerations sometimes determine what heavy equipment will be purchased and from whom. (See Appendix 6)

[i] The DPWH has area crews with equipment for maintenance and construction. The central government, through the DPWH's Bureau of Maintenance allocates funds for national and barangay road maintenance at varying rates per EMK (Equivalent Maintenance Kilometre). If adequately supplied with equipment (and given rigorously enforced standards), the province and the municipality can efficiently maintain those roads. Alternatively, they do what they can with hired casual labor and equipment rentals, if needed and/or available. Other comments, however, indicate that local governments generally have limited capacity to maintain the equipment.

[j] The USAID Filipino engineering staff were familiar with and up-to-date on ESF activities, obviously through regular project monitoring. They were also conversantly familiar with operational provincial and municipal staff. The generally non-

technical Secretariat officer staff were up-to-date on project activity to a lesser degree but, because of lack of technical skills could not completely participate in technical issues, usually related to CMES engineer and construction contractor deviations from acceptable engineering practices. The Project Officers were therefore limited in comprehending technical implementation problems.

[k] There were roads that were well maintained (Davao City, for example), and some that were poor. In one case in Bataan, an expensive asphalted road went nowhere, serviced few people, had little traffic, and yet, three years after completion was a maze of potholes, clearly due to contractor and/or inspection inadequacies.

Conclusions

[a] The road projects, like other earlier ESF projects, experienced implementation delays, principally due to lack of adequate supervision of aggressive, technical, managerial, monitoring staff. USAID did, and is, making the best possible effort in administering and implementing these road projects, (in fact all rural construction projects). The lack of local technical involvement by the Secretariat inhibits their assumption of full project management, technical duties, and administrative responsibilities. It is questionable whether the CMES, hired for this purpose, can undertake these duties with the same effectiveness as technically competent Secretariat staff.

[b] The ESF should continue to finance road projects, but more responsibility should be directed to road construction implementation by local governments with the technical capacity, complemented by parallel DPWH skills. This shared capacity is demonstrated for barangay roads in municipalities, where the Department now assumes responsibility. Their combined skills are adequate to assure adherence to the standards and procedures within the DPWH, and are consistent with those issued April 1989 by the Secretariat ("Implementing Procedures for Construction and Engineering") and not yet approved by USAID. Since municipalities have been granted authority to select and monitor contractors on government funded projects, ESFS should continue to grant such authority to selective municipalities. And especially in these local governments with an established record of performance and probity.

[c] Although inadequate due to a lack of budgetary support for needed maintenance equipment and staff, road maintenance does take place to the extent possible under such conditions; ESF roads remain operational and functional, although some barangay gravel roads cannot withstand typhoon rains (see Appendix G).

[d] The character of ESF road projects complement road works that are either financed by the Department or the provincial government. These roads are justified, on social if not economic grounds, even if the reasons for their omission from government financing plans remain unclear. In some instances, the road segments appeared to serve existing or planned barangay and urban fringe developments.

[e] Since the DPWH has prepared standards, plans, designs, and specifications, the degree of outside engineering consultancy services needed by the municipalities is minimal for standard roads. They undoubtedly have the requisite local knowledge to prepare the site details to augment the standard construction plans. Even more complex markets, for example, Dumaguete, use city labor and technical knowledge, supplemented by such contractual talent as necessary.

[f] The staff of the Secretariat is too physically removed from the subprojects, which need supervision on a more continuous basis with greater technical skills.

Recommendations

[a] The Secretariat should consider establishing regional project management offices for road (and school) projects. The offices should consist of generalist project officers and technically qualified engineers (possibly from in-house consultant staff). They should be assigned to centrally located sites to service surrounding regions. The offices would work cooperatively with implementing and review/approval committees and be available and on call to advise and monitor, on a regular basis, the implementation of projects. Certain Secretariat approval responsibilities might be delegated to the office, which would regularly report to the Secretariat in Manila to apprise the headquarters staff of problems and status of projects. This would focus Secretariat staff where the projects are, and where decisions are made.

[b] In carrying out the above recommendation, USAID should sympathetically review Secretariat travel allowances so that they might be comparable to those enjoyed by traveling USAID staff; USAID should also consider whether higher salaries needed to secure quality engineer staff are appropriate under relevant Philippine regulations.

[c] USAID and the Secretariat should delegate full responsibility for contracting implementation actions to those municipalities demonstrating experience and probity in project administration under PBAC and PMC directives administering

government infrastructure funds. With the issuance and approval of pending Secretariat guidance manuals, the Secretariat and USAID should consider holding seminars for provincial and city/municipal project management officers to acquaint them with the Secretariat's procedures. USAID and the Secretariat should consider delegation of engineering design and supervision responsibility for ESF roads (and schools) to selected cities and municipalities. They, as well as any province similarly delegated responsibility, would have to demonstrate their technical capacity to the Secretariat and USAID before approval would be granted. Essential to delegation of implementation responsibility is the quality of technical leadership which must be consistent with a legislatively established criteria for supervisory engineer positions.

[d] The present functions of the Secretariat's in-house consultant will need to be examined with a restructuring and decentralization of Secretariat staff as recommended in [a] above. A senior level engineer should work with the Secretariat's director and deputy to assure technical reliability of Secretariat decisions.

[e] If ESF projects include major high-volume linking roads, consideration should be given to providing the additional funds for concrete surfaced roads which will minimize maintenance costs. (Road maintenance requirements are discussed in Appendix G.)

[f] The Secretariat should continue to fund road projects, preferably those contributing to, and consistent with, approved area development plans. Funding of short road links meeting community social needs should be continued. A minimum cost base could be set below which there would be no need for more detailed feasibility studies.

c. Schools

During the field portion of the study, the team was able to visit 61 elementary and high school subprojects, and sites for additional subprojects. Many of these schools were in quite remote locations; sometimes as far as 20 kilometers from the nearest paved road. The team feels that it not only has seen a representative sample of schools in a wide variety of conditions, but that the reactions of principals and others with whom we have talked probably represent an accurate, if not statistically verifiable, cross section of opinion.

Findings

[a] There is a strong local demand for primary schools. As of June 1989, 1,000,820 elementary students were enrolled in primary school. Many schools visited operated on a two, and even three, shift basis. The population increases in the Philippines, where this government has been exceedingly reluctant to engage in a massive and needed family planning program, will continue in the short term, and create a strong demand for primary schools over the next decade.

[b] There is an important new demand for high schools. This administration has implemented a universal secondary school program, providing virtually free schooling at that level for the first time. Students are streaming into public schools from expensive private schools, and each high school visited noted extensive increases in enrollment. Elementary school graduates, former school drop outs, and transfers increased enrollment in 1989 by 8.6 percent to a total of about 400,000.

[c] At the same time, there were 8,300 classrooms planned for construction in 1988, but only 25 percent were built by the DPWH. The schedule for rehabilitation of existing classrooms, some of which we noted were built in 1947, is not reaching its targets.

[d] ESF schools are well regarded because they are perceived to be well built, and most importantly, they come complete with furniture, which no other donor provides. Teachers sometimes vie with each other to be assigned these rooms.

[e] The first item to deteriorate or break in schools are the wooden doors and louvres. The latter, wisely used instead of glass, are more durable but suffer because the wood may not be kiln dried, and connecting hardware is sometimes flimsy. Some schools protect the louvres with grates or wiring.

[f] The second item to deteriorate are downspouts, many of which eventually fall off. Most other primary schools do not have them. Gravel under the eaves helped prevent runoff puddles.

[g] ESF schoolrooms were, in a number of cases, used as the principal's office, because they are more secure than other wood construction classrooms and can be used for storage.

[h] Maintenance in elementary schools, in spite of reports of funds allocated by the government, is usually performed by the local PTA, which in some cases provided new structures or labor for new buildings. Under the PTA, students often carried out painting and landscaping activities. Without the PTA (in essence a form of school tax on parents), the schools would degenerate more rapidly. One school raised P18,000, which was to be used to buy furniture for a government-financed building.

[i] With universal high school education, the central government thus becomes responsible for the maintenance on those buildings. It is too early to determine whether those funds (running some \$5-6 per student) will be sufficient, for it is unclear whether this includes books and teaching materials or simply physical upkeep. Whether the ubiquitous PTA will play as significant a role at the high school level as it has at the elementary school level, because it draws students from wider areas with perhaps less focused loyalties, is uncertain.

[j] It seems evident that the choices of where to place an ESF school are, in large part, political. The needs are so great that it probably becomes necessary to satisfy as broad a spectrum of the population as possible. New schools, the team was told, are thus very popular.

[k] High schools built under the ESF program come with both libraries and laboratories. The Asia Foundation had provided books for the high schools visited. One laboratory had to be turned into a classroom because of shortages of space. The Secretariat is centrally procuring laboratory equipment for these schools.

[l] There were some plaques indicating AID funding for the schools (their presence seemed to vary markedly by area), as well as those from the Marcos period, in which the President and the First Lady figured most prominently. The only other indication of donor assistance was mention of the Economic Development Fund--the U.S. was not directly mentioned. (One such plaque had the names erased, another had been wrenched from the wall.) Temporary and appropriately worded announcements existed on buildings under construction.

Conclusions

[a] The standard design of the ESF three-room school is sound and includes typhoon and hurricane design features as its primary concern. The designs address the need for functionality and low maintenance, and are thus relatively simple. Perhaps the designs could be improved for the same price.

[b] The schools visited, which ranged in age from eight to one year old, were in a reasonable state of repair. The roofs were intact and construction seemed solid throughout.

[c] The demand for schools at all levels is strong, and they are well appreciated.

[d] The louvres and some doors are made with inadequate care and fastenings.

[e] The USAID investment in schools may or may not be questionable in economic terms, but as a social good it serves important and articulated needs and is a justifiable program.

[f] Designs are standard and well known and can be locally constructed without major problems.

Recommendations

[a] Continue the school program, but ensure that the contractors chosen continue to supply adequate furniture for the classrooms.

[b] Use local contractors as much as possible, and entrust local governments with the task of contracting and implementation, for this is a simple program to administer. Local design and construction supervision could also be undertaken under conditions set forth for road design (see above section).

[c] Consider holding a competition to see whether architecture and engineering students might come up with a better design, but one as safe, with the same basic standards for lower costs. Aesthetic architectural external improvements could also result in a more pleasing structure.

[d] Monitor carefully the maintenance on high schools after turn over to local authorities, even though with the nationalization of these schools this is now a national responsibility. In fact, monitoring of maintenance on an occasional basis for all completed projects.

[e] Strengthen specifications for louvres and their hardware, and consider designing grates to protect them, and provide security.

[f] The need for elementary schools is ubiquitous, but the rationale for the siting of high schools is unclear, and should be considered in the overall context of anticipated or planned population increases within the geographic area serviced.

2. Institutional/Managerial Systems

A series of factors have had profound impact on the program, technical, and financial management systems of the Secretariat--each of which will be analyzed below--and thus on the efficacy of its performance. These cross-cutting issues have in part been beyond the control of the donor and recipient. Some are internal to the management systems of the Government of the Philippines.

The primary external force was the change in government, and thus in leadership and policies at the central level. It also affected the functions, operating styles, and some legal aspects of the organizations with which the Secretariat must collaborate. This process of change, which in part is still underway, has affected the methods of collaboration and their pace, and ultimately the internal operation of the Secretariat and its implementation schedules. As times have changed, the issue of timeliness of activities has been affected.

Relationships between the Secretariat and the Office of the President and NEDA, to both of which the Secretariat must report, have been in flux, and still remain beaucratically unclear. This is not unique to the Secretariat, for many of the Project Management Offices established by donors to manage particular activities find their positions uncertain. This uncertainty is likely to remain as external donor assistance increases, and unless and until the Philippine Government clarifies the roles of various national agencies, including the overall administration of foreign assistance and the relationships between NEDA and the Council of the Philippine Aid Program (PAP). There is a need for more carefully delineated national operational procedures into which the Secretariat, among other such groups, will fit.

Of critical importance to the effectiveness of these management systems is not only national leadership, but leadership of the Secretariat. Since the revolution, there have been three Executive Directors of the Secretariat, all three in 1988 alone. This together with earlier tumultuous political events and new national policies, has resulted in a sense of drift in the Secretariat, and an apparent reluctance to confront essential issues of the status, role, and responsibilities of the organization.

a. Program Management Issues

Findings

[a] Subproject activities are, overall, in accordance with the physical standards, plans, and designs as approved by the Philippine Government and USAID. Manuals have been developed for these activities. Simpler design structures, such as schools and roads, are the easiest to implement.

[b] The issue of whether subprojects are economically and socially sound is an issue that can only be partly addressed by this process evaluation. It is the essential question of the planned impact evaluation. It is possible, however, for the team to contend that the schools and roads conceptually (as opposed to the rationale for any particular school or road) are socially sound. They may not be justified on economic grounds alone. The Markets and other income producing subprojects visited are demonstrably economically unsound under present design, lending, and operational conditions. (see Appendix 8) They may, on further analysis, be considered a social good. They are not now a health or environmental asset.

[c] The subproject design and approval and subsequent contract management processes are not expeditious (See Section V, Project Cycle, for details).

[d] Relationships between the Secretariat and Philippine agencies at various levels are not well-defined, with resulting subproject delays. These include problems not only with the NEDA and the Office of the President, but with the Department of Budget and Management, the National Meat Inspection Commission (for slaughterhouses), various line agencies with which project approval must be coordinated, and with local governmental organizations at various levels. Many of these relationships on the Secretariat's part have been (perhaps intentionally) informal or verbal.

[e] Relationships with USAID, which until the revolution had been close if not completely trusting, deteriorated during and following the revolution, because of the new government's apparent suspicions about the past role of the Secretariat. These have recently improved. Both sides, however, indicate concerns about the other: the excessive management requirements of USAID as viewed by the Secretariat, and USAID's need to monitor closely the expenditures of U.S. public monies.

[f] The roles of the various organizations, both Philippine and U.S., in their coordination and relationships with the Secretariat, are unclear, and are thus inappropriate for concerted and responsive action.

[g] The issue of rational subproject identification is complex. There are, in effect, a number of rational systems: those of the Secretariat, the line agencies, NEDA, the Regional Development Councils, and local governments at various levels. Because they overlap and yet are somewhat different, they are in a state of constant tension. The essential choices are modified by a complex, changing political process that seems to have the ultimate actual, if not legal, authority.

Conclusions

[a] The issue of whether the Secretariat is effective is dependent on the definition of that particular term. Defining effectiveness as the production of subprojects of appropriate standards of quality, of quantity, of timeliness, and in cost, the overall judgement is that the Secretariat has been marginally effective, but for many reasons beyond its or USAID's control.

[b] The systemic problems facing the Secretariat can only be addressed at a high level in the U.S. and Philippine Governments which both must be determined to make the projects and the Secretariat more effective.

Recommendations

[a] The U.S. and the Philippine Governments should initially attempt to resolve these issues, which in part stem from the fundamental disagreement on ESF, in part are a product of governmental changes, and are also a result of unclear bureaucratic roles. This drift has important implications for the donor programs in the Philippines (see Lessons Learned).

b. Technical Management

Findings

[a] The ESFS's in-house consultant firm, in general, is carrying out functions set forth in its contract, except for that scope of work provision requiring the consultants to provide on-

the-job training and technology transfer to the Secretariat's non-technical project officer staff. Of a staff of 19, only two or three have had some technical training. The in-house consultant staff closely follow the terms of reference and do only what the contract specifies. Their apparent lack of a broad-based approach in providing technical skills to the Secretariat inhibits overall technical confidence in the Secretariat's management of subprojects. The consultant firm carried out reviews of existing procedures and guidelines and prepared manuals on contracting for (1) technical services; (2) construction services; and (3) procurement. Manuals were completed in April and sent to USAID April 25, 1989. They also continue to review CMES prepared plans for adherence to school and road standards adopted by the DPWH and bid proposals, contracts and contract amendments. Their term will expire later this year.

[b] The Construction Management Engineering Staff (CMES) are doing reasonably well in plan preparation and in identifying subproject technical problems. Earlier problems in design are noted in [i] below. Local executives grossly disclaim any CMES efforts to upgrade local government capabilities. CMES project monitoring is based on the terms of reference for which they were hired. Engineers of CMES stay on site only for contract administration. Variations in performance among CMES consultants were reported.

[c] Local governments at various levels (provincial, city, and some municipalities) often have the capacity to implement standardized infrastructure projects. In each municipality or province, two committees are in place by virtue of Memorandum Order No. 175, namely: The Prequalification, Bidding and Awards Committee (PBAC) and the Project Monitoring Committee (PMC). The local governments have effective provincial engineering offices trained over the years (except in low class provinces and municipalities that lack logistic support). The participation of local governments can indeed be increased. The lack of Secretariat engineers makes the Secretariat ineffective in improving the local government's capability to plan and design infrastructure subprojects. Specific deficiencies could be resolved through provision of training in the various areas of project monitoring and implementation.

[d] The local government units visited by the team show that many other local governments have enough technical personnel, such as planners and engineers, who are qualified to supervise the planning and implementation of infrastructure subprojects. All of them are in the government plantilla, i.e. staffing pattern with names. This was conceived in 1974 by a Ministry of

Local Government memorandum compelling local administrations to establish and staff a Local City Planning and Development Board.

[e] The new role of the CMES as "Works Engineer" is consistent with the institutional development objectives of ESF projects. Although more often than not, local governments understand and accept the role of the CMES as "works engineers" for their subprojects, they look upon it as a waste of ESF funds, believing that the funds can be used by the city for more important priorities.

[f] The extent of "technology transfer" from the Secretariat in-house consultant to the Secretariat staff is minimal as noted in (a) above, and the lack of sufficient number of field engineers is critical. Improvement in technical capability is hardly noticeable except for the recent promotion of a competent architect as Director of the Technical Services Group. The Director should be assisted by an equally competent civil engineer in attending to civil works. They have adopted better work procedures to a certain extent, but are still inadequate in the upliftment of engineering standards in design.

[g] The Secretariat has fairly updated work programs for each subproject, but it appears that the tracking system for actual subproject progress has failed somewhere along the line. S-curves (construction progress curve) are submitted by the contractor and consultants in each progress report. Some reports reviewed have project actions that occur outside procedures; one example was a notice to proceed and expenditures incurred eight months before the Project Agreement was signed.

[h] The national government policy now defines the urgency of labor intensive road projects. Secretariat project officers do not have the capacity to manage the implementation of labor-intensive road construction subprojects, as they lack the necessary training for such activities. Neither USAID nor the Secretariat advocate such subprojects.

[i] The status of two slaughterhouses is examined to illustrate a breakdown in technical oversight, management, and the problems of changing administrations. Construction notices to proceed were issued in March and May 1984. Design probably took place in 1982 or 1983 by CMES firms. In January 1985 one was completed, work on the other was stopped. Both were padlocked pending design revisions required for compliance with standards and approval rights of the National Meat Inspection Commission (NMIC), an agency legislatively responsible. One such approval

was received just prior to the revolution, but not honored by the new NMIC management that took over under the new administration. Another problem was that NMIC design standards were not available. Both slaughterhouses are still padlocked and inoperative. Since 1986 some actions have taken place on negotiations among the cities, the Secretariat and contractors, the designers, USAID, and NMIC. In December 1988 the in-house consultant was asked by the city to assist in redesign. They also prepared standards in cooperation with NMIC. Now the projects are on the way towards completion.

Conclusions

[a] ESF school and road projects visited were structurally sound and well built. They were constructed in conformance with proven standards adopted by the DPWH and implemented by CMES consultants.

[b] In the larger municipalities, cities and provinces, there is adequate technical talent to administer, supervise and in some cases perform design and construction activities.

[c] The effectiveness of the CMES functions is questionable and complicated since they must respond to oversight management by USAID and the Secretariat (contracturally) and still maintain allegiance to the local government. The larger local governments, however, would rather apply the CMES funding to more important local projects and do technical implementation themselves.

[d] National directives have been issued which entrust provinces, cities and municipalities with implementation of government contracts through contract implementation committees. These same committees now successfully implement infrastructure projects. ESF subprojects are also being implemented along the same line.

[e] The terms of reference, and the staff assignments for field engineers, set forth in the contract with the in house consultant do not meet the quantity of technical support required to manage the ESF projects. To carry out adequately the Secretariat's role, their engineers should have high quality experience to cope with the level of technical ability of CMES and city engineers. They should also hold equal project responsibilities as project officers and both should be assigned locations closer to the work sites.

[f] Labor intensive road projects, historically, do not move fast and are most applicable to unsurfaced, low volume farm-to-market roads which do not meet local government priorities. Labor intensive roads also require funding mechanisms inconsistent with other ESF projects. A major goal of labor intensive construction is to generate employment. DPWH projects especially for road maintenance would be more appropriate for such construction methods.

[g] The illustrated ESF project problem(s) discussed in [j] above point out the necessity to hire CMES consultants who are in fact familiar with facility designs for which they are being considered. The example indicates that neither of the two CMES firms had enough engineering skills or building design experience to know of the NMIC requirement for approval of plans and designs. Further, there was a gap between work stoppage in November 1986 and the start of redesign by the in-house consultant in December 1988.

Recommendations

[a] The standards adopted for roads and schools used by DPWH should continue to be applied to ESF school and road projects.

[b] Experienced Secretariat engineering staff (mobilized and assigned as in section VI A.[b], recommendation above) should initiate visits to those local governments preparing preliminary programs for ESF projects. The purpose of such pre-project visits is to document their technical capacity. The information would help the Secretariat and USAID determine what technical assistance should be provided by consultants or whether the local governments could technically undertake all design and construction services by municipal forces. The PBAC and PMO experience with government funded projects should be documented. A standardized form for this assessment could be devised by the Secretariat.

[c] When CMES assistance is justified after assessing the local government capabilities in Recommendation [b] above, they should be closely monitored by equally qualified Secretariat engineers. Since other recommendations place responsibility for training jointly with the Secretariat and USAID, training should no longer be contractually provided by the CMES.

[d] Amend the terms of reference for the in-house consultant to eliminate the requirement to make engineers out of project officers. Such skills should be directly incorporated into the Secretariat by assigning engineers and project officers to field offices where they can assume equal responsibility for assuring on the spot, face-to-face, guidance and technical advice to the local government in their project planning and implementation activities. Engineers can be new hire or provided by in-house consultants. The team understand that the Secretariat had planned to hire engineers in the past.

[e] Two uncompleted slaughterhouses in [i] above illustrate the need for strong, responsible, continuing, high-level engineering talent in the Secretariat. Overall responsibility is held by no one. In this illustration, responsibility was spread among two CMES consultants, the municipality, the Secretariat, and USAID. An overall responsible senior Secretariat engineer having full knowledge of existing standards and government approving agencies should be hired and placed in an authoritative position. The situation is even more confusing because from 1981, the Director of the NMIC was a member of the MAC, which approved all slaughterhouse subprojects. This demonstrates that coordination must take place at the professional level not only at the apex.

c. Financial Management Issues

In addressing the evaluation scope of work relating to financial issues, the evaluation team conducted a review of the Mission's and Secretariat's financial reporting systems and interviewed key staff members within both the Government and AID who are concerned with financial management. It was our general observation that there have been several recent changes in the area of financial management, which when taken together, have substantially improved the overall financial management of the ESF projects. Some of the more significant changes include the government's implementation of the "New Disbursement System" in 1988, the Commission on Audit's (COA) action to move from a system of pre-audit review to one that relies more heavily on post-audit review, and the improved and simplified systems of dollar disbursements and payment approvals required by AID

(JPIL's # 8 and # 10). Figure 6, Appendix 2 presents a flow chart that incorporates these recent changes in overall financial management. It is also germane to note that the agency's most recent audit report on ESF Projects (#2-492-87-08) did not cite problems in the area of financial management as a major concern. This is marked contrast to an earlier report in 1982 (#2-492-82-12). Nevertheless, the team did note several areas of concern which are discussed in more detail in the following sections.

Findings

[a] Financial procedures developed between AID and the GOP appear to be effective in disbursing project funds in a timely manner, while at the same time reducing a sizeable balance in the Project's Special Account to a more manageable level. In conducting our analysis we utilized two different approaches that produced slightly different ending balances, but the trend in the reductions was almost parallel. The first approach examined available cash balances (less interest earned) in the Special Account at the Escolta Branch of the Philippine National Bank. This analysis indicated that the balance in this account has dropped from a high of P321 million on July 3, 1986 to P67 million on April 30, 1989. The second approach compared dollar transfers to the Special Account against reported reimbursements (drawdowns) from the account. This approach indicated that the peso balance had been reduced from P515.4 million on September 20, 1985 to P43.9 million on April 30, 1989. Figure 1, Appendix 2 depicts the reductions in the Special Account during this latter period. The balance in the Secretariat's working account at the Buendia Branch of the PNB has averaged P12.3 million over the past five months. This compares to the Secretariat's average monthly expenditure of P9.1 million during the past year.

[b] In spite of the general overall improvement noted above, there still appears to be a problem with the full and timely release of Advice of Allotments and Funding Warrants by the Department of Budget and Management. During the past year, the average time required for their release was four weeks and four and one-half weeks, respectively. The reasons for these reductions and delays are difficult to pinpoint. We believe that these problems result from a lack of understanding between the concerned parties about agreed procedures and/or failure of the parties to adhere to prior agreements on these procedures. As a result, there appears to be an inordinately large number of requests for AA's and FW's in any given year in spite of the simplified and streamlined procedures set forth in the "New Disbursement System". The DBM, also, does not always appear to adhere to some of the liberalized provisions of the new system.

Although all of the reasons for these apparent variances in the system cannot be fully determined, several factors are readily apparent; including:

- That the DBM is keeping the Secretariat on a tight funding leash;
- That the detailed information required for release of a funding warrant for prior years payable would closely resemble the information normally required for a pre-audit review;
- That the level of communication and/or trust between the DBM and the Secretariat is not particularly high.

There also appears to be a systemic problem about the issuance of Advice of Allotments when there are increases in the cost of civil works projects. Since these increases cannot be anticipated in advance, they are not included in the annual AA request. Since payments for these increases cannot be made in the absence of proper funding authority, a large number of supplemental requests are required if contractors are to be paid in a timely manner. This increases the work load at both the Secretariat and the DBM.

[c] In spite of the problems noted with funding warrants in Section [b] above, the level of funding warrants issued during 1988 average ₱8 million more per month than the Secretariat's average monthly rate of disbursements (₱17 million vs. ₱9.1 million). However, the Secretariat's disbursements rate may have been artificially suppressed as the result of delayed payment authority.

[d] The government continues to provide and gradually increase its level of financial support for the operation of the ESF Secretariat. At the present time it is shouldering approximately 57 percent of the overall costs for the operation of the ESF Secretariat. Figure 2, Appendix 2 indicates the cumulative level of funding support being provided by both the Philippines and USAID since the inception of the ESF program.

[e] The Secretariat has recently changed their system for recording subproject commitments and it is impossible at this point to determine if the new system will result in major over commitments of project funds. Under the old system, commitments were made on the basis of the cost estimates included in the

project feasibility studies and included in the Project Agreements with the local governments. Commitments were subsequently increased on the receipt of approved variation orders and price escalation actions. Under this system it was virtually impossible to over commit. In fact, the reverse was more likely. The new system of committing project funds utilizes estimates prepared by the Secretariat's in-house consultants that includes a 25 percent factor for variation orders and escalation. Under this system, overcommitments would be possible if there were no variation orders or subsequent price escalations. Past history has indicated that this is very unlikely, and we have noted cases where the actual subproject costs have exceeded their original estimates by as much as 59 percent.

[f] Based on a review of a limited number (30) of samples, there has been a substantial reduction in the time required by the Secretariat to process payments to contractors on civil works projects. In a sample of ten payments between 1985 and 1988, the average time for payment after the receipt of the presentation for payment documents by the Secretariat was 129 days, with an average of 22 days required for USAID approval. In a similar number of payment transaction between January and June, 1989, (after the removal of the requirement for COA pre-audit and USAID approval on interim payments) the average time period for processing payments had been reduced to 55 days. In eight transactions processed between May and June 1989, the average decreased to 22 days.

[g] There appears to be an inordinately high number of payment transactions under each civil works contract. For example, in one case 31 payment actions were taken on a P9 million market. In another case, it required 43 payment actions on a P12 million hospital. We understand that this problem is not specific to the Secretariat.

[h] The average time required for processing contractor payment transactions has decreased from over 100 days to less than two months; and much of this decrease occurred only after pre-audit restrictions had been lifted, with the other contributing factor being the elimination of USAID approvals on interim payments.

One of the COA's requirements for lifting pre-audit requirements was the formation of a formal internal control group within each government agency. Such a group was created within the Secretariat on May 2, 1989 under ESF Office Order #012 and it was only at this time that the pre-audit requirements appears to have been relaxed.

In discussion with COA officials, they have indicated that the Secretariat's action to create an internal control group substantially complies with COA requirements under Circular #89-299; however some question exists as to whether this should be a permanent, full-time organization within the Secretariat, or whether it is sufficient for it to be an ad hoc body that performs the required functions in addition to their normal duties. This is an important issue, as COA has the power to withdraw post-audit authority and place it back under pre-audit requirements if it finds that an agency has failed to develop an adequate internal control system. Further, Presidential Administrative Order #119 implies that the Department of Budget and Management would approve additional positions for an Agency that requested them for this purpose.

[i] The Secretariat does not have a comprehensive, accepted system for the formal close out of completed subprojects. It does, however, attempt to close out its financial records in accordance with COA guidelines on this subject.

The Commission on Audit has established specified close out procedures to be used by all government agencies when projects are completed. In summary, these procedures require the certification of completion and acceptance, followed by the financial close out of the accounting records. This action takes the form of establishing an asset account and/or a loans receivable account. If the asset was grant financed and the beneficiary was a local government, the asset should be transferred to the local government without cost, which in turn would be required to show it as an asset on their records. For loans, the asset should be transferred to the local government which would establish both an asset account and a loans payable account.

In reviewing the application of this system within the Secretariat we were able to determine the following:

- Certificates of completion and acceptance are being obtained and final payments and retention refunds are being made as appropriate.
- Due to the lack of complete information regarding lending arrangements, the finance and accounting office is unable to initiate final close out action on subprojects that contain a loan element.
- Proper close out procedures are being used to transfer the assets to the local government when grant funding is involved.

- There is no evidence that these procedures have had any significant impact on the resolution of disputes.

Conclusions

[a] Current financial management practices have been successful in reducing the peso balances in the Special Account to a much lower level. For the past two years, the Special Account level has been maintained in a much narrower range, varying between a high of P67.3 million and a low of P13 million. This reduced level of peso balance in the Special Account still appears to allow for timely project funding.

[b] The DBM does not appear to be adhering to the spirit of the New Disbursement System with respect to Secretariat's request for funding warrants. Although this does not appear to have caused any major problems to date, since the Secretariat's requirements over the past year have been relatively modest, it is likely to cause disruptions in the system when the level of the program expands later this year or in early 1990. Further, this problem is not likely to resolve itself until there is better communication between the DBM and the Secretariat. Since the budget agency always has the upper hand in matters of this nature, the Secretariat will probably have to take the lead if there is to be eventual resolution.

[c] The existing system that requires the use of supplemental Advices of Allotments for variation orders and price escalations impedes the timely payment of contractors for these purposes.

[d] The time required for processing contractor payment requests has decreased partly as the result of the lifting of COA pre-audit requirements and for USAID's approval on interim payments. A broader sample might indicate a somewhat smaller reduction in the time period, but we feel confident that the variance would not be more than 10 to 20 percent.

[e] The large number of payment transactions on each civil works project tends to slow down the whole payment process for contractor payments.

Recommendations

[a] In order to facilitate better communications between DBM

and the Secretariat, quarterly meetings should be scheduled to discuss future funding requirements, past expenditures, and other matters of mutual interest. A USAID representatives should be included in these meetings so that they are kept abreast of future dollar requirements.

[b] Action should be initiated to develop a more simplified and expeditious system for obtaining funding authorizations when variation orders and cost escalations are involved.

[c] In order to reduce the overall number of contractor payment transactions, the Secretariat's system of payments should incorporate, to the degree feasible, a maximum number of payments during the course of construction.

[d] The Secretariat should closely monitor the activities of the Internal Control Group and ensure that it works closely with the resident COA auditor to develop satisfactory systems and procedures to strengthen the internal controls of the Secretariat within the time specified in Office Order #012; i.e. three months. It should also clarify the issue as to whether this unit is intended to be a permanent full-time organizational unit or whether it is sufficient to function on an ad hoc basis.

[e] The Secretariat should initiate formal close out procedures on all completed subprojects in accordance with a formalized plan that is consistent with CCA guidelines.

B. Institutional Analysis

This section discusses the four critical organizational entities in this evaluation: the Secretariat, local government units, USAID, and the Regional Development Councils. Since aspects of the Secretariat and USAID have been covered in other portions of this report, this section will deal more generally with their institutional roles and relationships, while local government is discussed both here and more extensively in Appendix 4 and Appendix 5.

1. The Economic Support Fund Secretariat

Findings

[a] The Secretariat has a good, generalist staff dedicated to service in Philippine economic development.

[b] There is a major problem of a lack of definition of purpose of the Secretariat. Beyond its daily operations, staff have articulated that it lacks a sense of its future, as well as a corporate image and identity.

[c] The ESFS relationships with NEDA have not been very close, although it depends on NEDA for policy guidance and subproject review and approval. The team believes these problems reflect more widespread difficulties within the Philippine government, and have important implications for foreign assistance overall. Discussions on these issues have been held within high levels of the GOP.

[d] The formal communications between the Secretariat and the large number of Philippine Government entities with which it must work and coordinate is highly tenuous, and thus slow, and retards subproject achievements.

[e] The Secretariat has lacked continuous leadership. It has had three Executive Directors since the revolution. All have been in an "acting" capacity, which has avoided the issue of a presidential (and thus perhaps politically determined) appointment. None seem to have had either the time or the bureaucratic strength to affect major changes, nor has the external climate been conducive to such changes.

[f] The Secretariat suffers from a poor image within the present administration. This is based on its earlier association with the Ministry of Human Settlements, as well as internal problems since that time.

[g] Relationships with USAID have not been as close as is desirable. This is because of a heritage of problems from the previous administration. Although these issues have been resolved, a closer relationship seems needed.

[h] At the same time, it should be noted that there is a close technical relationship with USAID on subproject activities and the preparation of technical manuals and other aspects of the work.

[i] Secretariat relationships with local governments need attention at the technical level.

[j] USAID payment of Secretariat salaries outside of the Philippine Treasury has contributed to the lack of corporate identity.

Conclusions

[a] The Secretariat needs a sense of goal and purpose. (Both are proposed in Section VIII, and in Appendix 3.)

[b] The Secretariat needs secure leadership.

[c] The Secretariat needs closer, fundamental relationships with USAID. This could be facilitated by improved communications, continuing periodic review meetings and open discussions on issues, as well as appropriate transfer of technology.

[d] Secretariat relationships with local governments should be made more collaborative, and be seen by those units as supportive of their new, but still potential, roles under decentralization plans. Assigning Secretariat staff to regional sites is proposed (see Section VI A.1.b., Evaluation Analysis, Roads).

[e] The Secretariat needs to have its status clarified within the Philippine Government system (and this becomes especially important as the new Philippine Assistance Program is formulated), and new improved relationships with coordinating organizations.

[f] Staff believe that the centralized procurement system established by the Secretariat is an improvement over a previous more unorganized system, but it is still said to be slow and cumbersome; construction is completed before equipment can be in place. On the other hand, excess property equipment is generally disliked because it does not last.

[g] There have been few evaluations, and the Project Papers have been vague on their scheduling.

Recommendations

[a] Both the Secretariat and USAID should attempt to coordinate an approach at high Philippine Government levels to clarify the status of the Secretariat, and assure the continuity of its leadership.

[b] Problems of the Secretariat, either internal or in coordination activities, should be brought up to the Project Facilitation Committee of the Office of the President.

[c] The Secretariat should coordinate closely with the Department of Budget and Management on budgetary and reporting requirements to minimize financial delays.

[d] The staff salaries of the Secretariat should be paid through the Treasury and their status (even if temporary) regularized. USAID should conduct a review of Secretariat and government salaries to determine, after consultations with appropriate and involved agencies, whether adjustments should be made.

[e] USAID should consider training for Secretariat staff, including TDY's in AID within such fields as contract management and evaluation (see Section VIII).

[f] Annual joint evaluation meetings should be held by USAID and the Secretariat. Only two (the second one in connection with the evaluation team) have been held since the inception of the Secretariat.

(Additional recommendations regarding Secretariat staffing are in Sections VI A, 1, b, and VI A, 2, b.)

2. Local Government Units

Findings:

Implementing Agency

[a] The relationship between the Secretariat and the municipalities during project implementation is specified in the standard Project Agreements that both parties sign. There are three (3) standard Project Agreements: Fixed Amount Reimbursement Agreement (FARA), Grant, and Grant-Loan. The provisions of the three ProAg are as follows:

- The Secretariat, pursuant to Letter of Instruction No. 1440 dated Nov. 2, 1984, is an "infrastructure agency"

which it interprets as having full authority to undertake and implement ESF infrastructure projects (although this was questioned following the revolution).

- The Secretariat delegates certain implementing functions and authority to the concerned municipality, city or province which it refers to as the "Implementing Agency", and which is required by the Secretariat to set up a "Project Management Office" headed by a Project Manager and staffed by qualified personnel to manage the project.
- The functions of the Project Management Office are essentially to "coordinate the planning, scheduling and conduct of activities essential and incidental to the completion of the Project within the framework of the Project Description and within the context of guidelines, policies and goals as may be mutually agreed upon by the Parties."
- The Secretariat hires a consultant (CMES contractor) for each subproject to design the project on behalf of the local government. For construction supervision and management, the same CMES consultant (usually) acts as the Works Engineer for the local government. The main task of the Works Engineer is to act as the "technical representative" of the local government and to ensure that the contract works are carried out in accordance with plans and specifications prescribed in the contract document.
- The local government as Implementing Agency is required by the Secretariat to authorize the consultant as Works Engineer to make such decisions and to issue such instructions and orders in its behalf as may be necessary or desirable in supervising construction.
- Although he is designated as the technical representative and Works Engineer of the local government, the consultant reports directly to the Secretariat and not to the local government.

[b] Although the local government is designated by the Secretariat as the Implementing Agency, the ProAg's give the concerned province, city or municipality minimal responsibility

and authority. Much of the authority for project implementation is delegated to the consultant hired by and reporting directly to the Secretariat. Even though the local government may have the technical capability to implement the subproject on its own without the need for an outside consultant, it is required by the ProAg to contract for outside services.

[c] When questioned, the vast majority of Provincial, City, and Municipal Planning and Engineering officials stated that the Secretariat and USAID were the primary implementing agents. The local government feel that their main function is that of "monitoring" the subprojects. This stems primarily from the existing system where contract actions and payments are heavily centralized in Manila, creating a situation that allows little participation for the local government after the bid preparations are completed. From this point on, subprojects are really administered by the Secretariat and turned over to the local government on a "turn-key" basis if and when they are satisfactorily completed. Understandably, local government do not feel a high degree of ownership in the subprojects during the construction phase and look to Manila (the Secretariat and USAID) to resolve problems when they occur.

[d] It appears that at any given point, the person most knowledgeable and involved in subproject implementation is the USAID Project Engineer. Many of the local government look to him/her as the primary source of information on the decisions made by Manila regarding their projects, including the status of payments made to contractors. Their relatively heavy involvement in the implementation process produces the impression that USAID engineers have more responsibility for implementation than intended, and results in the local government looking to USAID to be the primary agent in resolving problems instead of the government. (One USAID Project Engineer actually overruled a School Principal and changed the project site.)

[e] The local governments appear capable of managing the construction of smaller, standardized subprojects such as the elementary school and rural roads program. However, problems soon develop when they attempt to carry out larger, more complex projects. The present system does not appear to be able to resolve construction and equipment problems once they surface. This seems exacerbated by a poor communications system between the Secretariat and the local government with the local government claiming to be ignorant of actions (if any) being undertaken at the Secretariat to resolve the problems. Conversely, there seems to be a lack of ownership by the local government in the projects until they are completed and turned over to them in operating condition.

Project Management Offices

[f] To implement the various ESF-assisted projects in their locality as required in the ProAg, the various local governments have set up their respective project management offices. These offices were staffed by personnel coming from the their Planning and Development Office as well as from the Engineers' Office. The Project Manager, in most cases, was either the Planning Coordinator or Chief Engineer. The capability of these Engineering and Planning Offices to select, contract and implement small and medium-sized development projects varied among provinces, cities and municipalities.

Provinces:

[g] The existing 1983 Local Government Code authorized each of the 75 provinces to have their respective Provincial Planning and Development Offices (PPDO) and Provincial Engineers Office (PEO). The total number of development staff in the provinces visited by the team varied from 20 to 28. That of the engineers office varied from 200 to 230 employees including about 10 to 20 engineers. Many provinces visited have previous experience in implementing projects funded by USAID. Tarlac, for example, was one of the two pilot provinces selected in 1966 for Operation SPREAD (Systematic Programming for Rural Economic Assistance Development), the forerunner of the highly successful USAID-assisted Provincial Development Assistance Program (PDAP). South Cotabato, on the other hand, implemented several special projects under the PDAP Umbrella: Equipment Pool Development Program (1972); Special Infrastructure Program (SIP) in 1973; Rural Roads Project (RRP) in 1975; Barangay Water Projects (BWP I & II) in 1977; and Real Property Tax Assistance Project in 1978.

[h] There were a total of 28 provinces, including Pampanga and Davao del Sur, that participated more fully in the PDAP program. The PDAP evaluation, made in 1980, concluded that the project made significant contributions to the development of the capability of the participating provinces to plan, manage, and implement program. The PDAP achievements included the following:

- PDAP provinces were quite capable of developing their own projects, their own management systems, their own agendas.

- Provincial coordination and development staffs have become vital actors, serving as executive staff, planning officers and coordinating agents.
- Provincial governments now possess the technical, administrative and political means necessary for the management of their jurisdiction and the implementation of national development projects.

In many areas there has been considerable attrition of PDAP staff, but many of the systems still are in place.

Cities:

[i] Just like the provinces, the various cities visited by the team were found to have organized their own Project Management Offices to manage ESF-assisted projects. Their offices were staffed by planners and engineers coming from the City Planning and Development Offices (CPDO) and the City Engineers Office (CEO). The Project Manager of the office was usually the City Planning and Development Coordinator or the City Engineer. The size of the development office varied from 30 to 45 employees. It is usually organized into: (1) Plans and Programs, (2) Research, (3) Administration and (4) Special Projects. The staff of the Engineering office on the other hand, averaged about 150. (Davao City's CEO with 705 employees is an exception.)

[j] The Development office coordinates the preparation of feasibility studies for nationally-funded (NALGU projects) as well as foreign-assisted projects. This is especially true for highly-urbanized cities like Baguio, for example. In the preparation of feasibility studies, the Baguio city government taps the services of other national government agencies - DPWH, Department of Energy and Natural Resources, NEDA, etc. as well as various non-governmental organizations, e.g. the three Baguio Colleges of Engineering, private mining firms (Benguet, Philex), etc..

[k] In addition to the ESF projects, several cities have participated in the PREMIUMED project and the Regional Cities Development Project (RCDP) both being funded by the World Bank (see Appendix 11). Angeles City, for example, is implementing two projects (solid waste and rural roads) costing ₱40 million (consisting of ₱23 million loan and ₱17 million grant) under PREMIUMED. Davao City, on the other hand, is one of 4 cities

covered under RCDP (the others are Cagayan de Oro, Iloilo and Baco'od). Two markets worth ₱12 million and a bus terminal project are being implemented by Davao City under the RCDP.

Municipalities:

[l] Under the 1983 Local Government Code, all municipalities (just like their equivalent provinces and cities) are authorized to organize Municipal Planning and Development Offices and Municipal Engineers Offices. The staff of both tend to be small and varies depending on the income (and corresponding classification) of the municipality. Third class municipalities like San Fernando, La Union, with an annual average income of ₱11 million (and a population of about 84,000) has a development office of eight employees. Its Engineering office has 13 personnel (including 5 civil engineers, 1 electrical engineer, 1 architect, 2 draftsmen and 4 clerks).

[m] A fifth class municipality like La Trinidad, Benguet, on the other hand, with an annual average income of ₱3 million has a Development office of eight employees and an Engineering office of eight personnel. The Development office, just like their counterparts in the City, coordinates the preparation of feasibility studies for local, national and foreign-assisted projects. San Fernando's Development office for example, coordinated the preparation of feasibility studies for the (1) Market Project and (2) Drainage Project for funding under the World-Bank assisted PREMIUMED Program. The feasibility studies were prepared with the assistance of regional office agencies in San Fernando, La Union. The markets project is funded with a 100 percent loan (at 9 percent interest) while the Drainage Project is a grant. Detailed engineering design is being done and bidding is expected to be held in October 1989.

[n] Other municipalities, in the absence of in-house technical knowledge, tap the services of non-governmental organizations in the preparation of project feasibility studies. La Trinidad Municipal government, for example, has had the help of Benguet State University, and Jaime V. Ongpin Foundation (formerly Benguet Foundation) in the preparation of project proposals.

Conclusions

[a] We question the wisdom of USAID's continued level of intense subproject management and suggest that it gradually begin to

disengage itself from this process and take on a truly monitoring position.

[b] Local governments are unanimous in wanting to take on more responsibility for project development and implementation including contract administration and the payment of contractors. They frequently cite the PREMIUMED system of allotting funds directly to the local governments as the optimum situation and feel that their control of funding would enhance overall implementation performance. They would, of course, prefer grants to loans, and PREMIUMED is completely a loan program.

[c] The evaluation team agrees with the various conclusions pertaining to local technical capabilities as described in the Project Papers. The capability certainly varies among provinces, highly-urbanized cities, component cities and municipalities. The Project Paper for the Markets Project states (p. 34):

"In general, larger LGU's are well organized administratively and have performed well in past programs providing quality construction in a timely manner. LGU's have the capability, to varying degrees, to undertake the additional construction and implement the administrative procedures proposed under this project without adversely affecting existing commitments."

"AID has had many years of experience working with LGU's. LGU's will implement their respective subprojects in accordance with standard GOP procedures and regulation and the terms and conditions of the Project Agreement."

[d] The Project Paper for the Municipal Development Fund Project, under Section C: Local Government Institutional Analysis (p. 14) states:

The presence of development staff or coordinators is a satisfactory assurance that the local government unit has capacity to be involved in project identification, planning, and monitoring and evaluation. Assistance, however, will probably be needed on detailed technical project design and implementation in most cases. Given the existence of 1) development staff, 2) the MDF's intention of providing resources to strengthen local institutional capacity through technical assistance, and 3) the guidance provided by

the national government agencies, (and provincial government for municipalities) particularly the Capital Investment Program, it is AID's conclusion that adequate institutional capacity of local governments exist to implement the MDF, as presented.

These conditions are essentially satisfied by the local governments visited by the team. They have various planning and development offices in place; there is technical assistance being provided by the Secretariat's project officers, USAID's project engineers and by private consultants; there is guidance provided by many government agencies, including NEDA, DPWH, etc. Hence it is also the team's conclusion that the LGU's have the technical capability to identify, manage and monitor projects.

[e] The team also agrees with the conclusion made in the Project Paper of the Regional Development Fund Project (p.18):

In summary, the RDF focus on provinces for project identification and implementation makes sense for several reasons: 1) they are the lowest level of government in the Philippines which have an adequate capacity to plan and implement development activities (in contrast, most municipalities are more in need of assistance in basic capacity building); 2) after more than a decade of PDAP efforts, provinces are generally in a position to make effective use of development resources, since PDAP system and procedures have been widely instituted in non-PDAP provinces as well.

Recommendations

[a] The Secretariat should after careful review of individual capacities and records, delegate the full authority to select, contract and implement standardized subprojects to some appropriate local government on a phased basis from among the following:

- The 28 provinces which participated more fully in the USAID-assisted PDAP programs.
- The highly-urbanized cities that participated in the PREMIUMED Program as well as in the Regional Cities Development Projects (RCDP), both of which are assisted by the World Bank.

- The municipalities that participated in the PREMIUMED Program.
- Cities that participated in USAID sponsored Regional Service Center project.

Only those entities with records of fiscal and supervisory responsibility should be considered.

[b] The Construction Management Engineering Services Contractor (CMES) is presently hired by the Secretariat to assist the local governments in the design and construction of subprojects. Contracting should be done by those local governments considered qualified by Secretariat and USAID to perform their own implementation.

[c] The Secretariat should encourage the local governments to tap the services of the non-governmental organizations and private voluntary organizations in the identification, preparation, implementation and evaluation of ESF projects.

[d] The Secretariat should encourage the training of local government staff by financially supporting their attendance in ongoing non-degree training programs on development management, project development, project management and implementation, contract administration, etc., being conducted by both private and public training institutions in the Philippines.

[e] The Secretariat should devise an evaluation system for appraising and approving project proposals being submitted by the local governments through their respective regional development councils.

3. USAID

Findings

[a] USAID established the Secretariat for its bureaucratic and programmatic convenience, and has worked closely with it on a daily basis.

[b] The overall operations of USAID in the monitoring of the

ESF projects may be characterized as conscientious but fearful. It has been exceedingly prudent in its allocation and handling of funds because of the previous regime's attempts to use project monies without USAID approval for political purposes, and because of a widespread, justified belief that there was in past years venality within the contracting and consulting community, and even within the Secretariat. These fears reflect prior Congressional concerns. At the local level, they seem to have been resolved.

[c] USAID oversight is complex. It directly concurs in all salaries within the Secretariat, and makes payments outside of normal Philippine treasury operations. It sets standards and operating procedures, and reviews subproject performance on a continuing basis through the employment of half a dozen Filipino engineers, who are the backbone of the review and inspection process. It approves many funding and completion reports, as well as variation orders. It, of course, retains the right to audit and inspect.

[d] USAID has established performance criteria for physical construction, and related them to reasonable costs; i.e., establishing product value for money spent. To do otherwise would be to take over completely the total implementation responsibilities for each subproject.

[e] With the regularization of the political process, and the installation of simplified procedures, which reduce the USAID "50 steps" review to a much smaller number, the relationship between USAID and the Secretariat has improved.

Conclusions

[a] USAID has begun the process of backing off of direct supervision, except in the field where USAID engineers are seen to play the most powerful role.

[b] Extensive monitoring, although understandable, creates tensions within agencies of the present government, which regard it as more stringent than that required of the previous administration. It may be that the reluctance of USAID to delegate authority to local governments is less a product of the fear of technical incompetence than it is an appreciation of the possibility for local mismanagement of funds.

[c] The USAID engineers have wide, undelegated power for project implementation.

Recommendations

[a] USAID should study means by which it can prudently begin to back away from project implementation through its engineering staff by phasing in a new Secretariat-supervised field office concept.

[b] USAID should devise systems that would allow it to enable the Secretariat to bear more responsibility by engaging in reimbursements and other post-subproject monitoring, as long as standards and other systems approved by USAID are in place. The team understands that not all local governments have sufficient funds to advance even modest construction costs.

[c] It is the team's perception that the overall management of the ESF project cluster is focused on one aspect, the critical technical issues, but not on the totality of the ESF projects in context. The team supports the relatively high level of engineering monitoring and commends its past fiscal caution given the then prevailing conditions. There does not appear to have been, however, an equal level of attention given to the policy, bureaucratic relationships, and role of the project side of ESF. Were the Secretariat to adopt our proposed recommendation to reorient itself on capacity building at the local level, the Mission should carefully rethink how it would reorganize its management of the program so that "project purpose" level issues and policies could be better addressed.

4. Regional Development Councils and Decentralization

A major theme encountered throughout the evaluation was the emphasis placed by the Government on greater decentralization, and for stronger and more active Regional Development Councils. Article X of the new 1987 Constitution is primarily devoted to this subject, and provides the legal foundation by which the Government plans to strengthen the autonomy of local government units that comprise the existing regional apparatus. To initiate this process, Executive Order 308 of November 1988 provided the framework for the revitalization of the existing Regional Development Councils by giving them the authority for: (1) approving multi-year development plans; (2) reviewing the regional budget proposals of the regular line agencies, and (3) ensuring the consistency of local development plans with regional priorities.

Other initiatives that are in process to place greater autonomy in the hands of local authorities include Senate Bill

#927, an act to enhance their financial autonomy, and a proposed revision to the Local Government Code of 1983, which proposes, inter alia, placing infrastructure and most line agencies under local government jurisdiction. Although the outcome of these two pieces of legislation are not certain, it is clear that a major objective of this administration is to place more responsibility and authority for development at the local level. Given this direction and inherent Philippine needs, we feel that it is incumbent on all central government organizations, including the ESF Secretariat, to begin the process of reorganizing in a manner that is responsive to government policy and local needs.

Findings

[1] The ESF Secretariat has recently developed a proposed reorganization plan to improve the overall effectiveness of the Secretariat. Although we have not reviewed this plan in its totality, it is our understanding that it does not contain major revisions that would delegate any more authority to local government than exists under its current organization.

[2] A major exception to the above finding is a proposal that would require all subproject proposals and feasibility studies to be routed to the Secretariat through the Regional Development Council for their prior review and endorsement. Figure 5 of Appendix 2 indicates how the RDC's relate to the overall process for subproject identification and programming.

[3] The capacity of LGU's to assume more responsibility for infrastructure planning and implementation varies greatly between the various local governments and within the LGU organizations themselves.

Conclusions

[1] The Secretariat's proposed plan to bring the RDCs into the ESF planning cycle at an early stage is a positive step. It should improve the overall quality of the planning process and reduce the time needed for higher-level government approval. At present, most subproject proposals are routed directly from the local governments to the Secretariat, but then must be returned to the RDCs for their subsequent review and endorsement.

[2] The Secretariat's proposed organization plan may not fully address all the organizational implications being proposed in various pieces of pending legislation.

[3] Additional training and other capacity-building measures are needed if the local government's increased authority is to be effectively employed in the development process.

Recommendations

[1] The Secretariat should formally adopt the proposed plan to include the RDCs in the ESF subproject identification and review process at an early stage. In addition to ensuring consistency with regional priorities, it should also include the review of supporting feasibility studies to verify that they are complete and comply with the established criteria for feasibility analysis.

[2] Prior to adopting a revised organizational plan, the Secretariat should review their plan to ensure that it is consistent with current government policy and pending legislation on decentralization. In so doing, it may wish to consider moving some of their staff to branch offices in the northern Luzon, Visayas and Mindanao, perhaps at selected RDC sites.

[3] The Secretariat and USAID should review existing training programs for local government currently being undertaken by the Department of Local Government and the NEDA regional offices to enhance their capacities in project appraisal, development, implementation and monitoring. If appropriate, it should explore ways in which ESF resources could be used to enhance these on-going programs to reach a greater number of local staff.

VII. LESSONS LEARNED

Lessons learned are those generalizable or abstracted conclusions drawn from the review and the team's experience that have wider application beyond the confines of the project. The reader may wish to consider the following:

[1] If the present unclear status, responsibility, and coordinating roles of the Secretariat reflect a general condition among donor-sponsored offices on the fringes of the Philippine bureaucracy, and if that condition is not substantially resolved, it is highly questionable whether the Government of the Philippines will be able to absorb expeditiously even the present

level, let alone future increases, in project as distinguished from donor program assistance.

[2] In spite of changes in the Constitution and statements in the Medium-Term Economic Plan, as well as those in proposed legislation, central government agencies and various political groups are reluctant to devolve authority to local governments. Increasing foreign assistance, if safeguards are not taken, could continue the reality of fiscal and project centralization.

[3] The U.S. might seek more definition from the Philippine government to rationalize the roles of various Philippine government agencies so that all foreign assistance might more readily and effectively be absorbed. This would require the highest level of attention in Manila, but could materially assist national growth.

[4] The socio-economic and political context in which projects operate, as well as the management and organizational issues likely to be faced by both project and subproject managers, should be given as much attention and importance in project appraisal and evaluation as the more traditional financial and economic analyses.

[5] There is an erroneous assumption that project managers and their staff have the necessary knowledge, skills and understanding of both the government and the donor agency's guidelines and procedures to allow them to administer properly foreign assistance and solve its problems.

[6] A lesson from the PDAP experience (see Appendix 3) are still valid: that foreign aid organizations should be reluctant to establish new and competing bureaucratic entities for temporary project expediency.

[7] The standardization of procedures and designs for subactivities by any centralized organization may be necessary for its efficient administration, but it is often dysfunctional for the ultimate beneficiaries when local conditions require unique responses.

[8] Although the argument is sometimes made that grant funding of projects requires greater oversight and responsibility than loan funding (in which there are built in economic controls), the real dichotomy in the Philippines may be between donors, rather than the types of support. Because of Congressional pressures,

all U.S. loans and grants have, and are likely to continue to require, oversight more intense than many other donors. Such oversight, perhaps in less obtrusive ways, should continue in all projects.

[9] "Technology transfer" can only occur when there is a shared professional base on which to build; one cannot turn generalists into technicians. A peer relationship is required those providing and those receiving technical assistance. Increasing monetary benefits alone to project staff does not necessarily result in improved project management performance and effectiveness.

[10] The leadership and personality of a project manager is a most important factor in determining project success.

[11] Older Project Papers, approved in AID/W, contain attractive provisions that abstractly address local needs, but these provisions (especially evident in markets) have led to unrealistic economic and social objectives that cannot be realized. A more realistic appraisal of anticipated results is required. This is most likely achieved (as the literature teaches us) by involving not only host central governments, but local governments and peoples (witness the decision of those who would ultimately have had to pay to reject construction of a market).

[12] USAID has wisely stressed low maintenance assistance (concrete roads rather than asphalt, wooden louvers rather than glass), but USAID's past provision of "excess property" equipment (used but rehabilitated) has, in effect, increased the recipient's maintenance costs and contributed to breakdowns of processes dependent upon equipment use. This general practice has stopped and should be rejected for other countries and projects as well.

[13] There are inherent tensions in the balance between donor and recipient in management and supervision; if the donor's role is to decrease the recipients competence must be built up to fill the void. [In the case of ESF projects, an increase in Secretariat and local government capacity should be actively pursued.]

[14] Since subproject management cannot continuously remain in foreign hands, there is a need to establish some measurable guide to achievements, such as standards of adequate physical construction performance for specified costs, as a reasonable, efficient, and culturally sensitive approach to dealing with implementation problems and yet protect U.S. interests.

VIII. IMPLICATIONS FOR FUTURE ACTIONS

Objective conditions in the Philippines as well as some improvements in the operations of the Secretariat itself, have alleviated some of the pressing problems, such as the peso pipeline, previously facing that group. The above recommendations, if implemented, would affect further positive changes. Yet more fundamental problems remain, some of which may be shared with other, similar organizations. These issues may be assuaged by affirming a new, more critical, role for the Secretariat, one closer to the articulated Philippine government planning policies as well as one in conformity to longer range USAID program direction (see Appendix 3 for an extended discussion of this issue). Some of these steps should be phased in over time.

Organization

This evaluation team suggests that the Secretariat redefine its goal and purpose. It might do this by formulating a distinct set of objectives that distinguish it from other organizations.

The uniqueness of an organization is dependent on one or a number of the following: its role, its functions and programs, its competencies, its capacity for expeditious timing, and its sources of support. The Secretariat is now only unique in its funding source, but this advantage may become less noteworthy as more donor assistance is provided (and thus as more bureaucratic organizations emerge). What is needed is a new, articulated sense of direction, accomplishment, and singularity, one model of which follows.

The Secretariat might be redefined to become a Project Management Office, whose functions may be transferred or decentralized at some appropriate time in tandem with the increased capacity of local governments to take over smaller rural works and infrastructure projects from conception to evaluation. Such a designation implies a limited organizational life.

In AID's logical framework terms, the goal of that organization might be:

to support the Philippine policy of assisting the development of self-sustaining local government capacities at appropriate levels (e.g., provincial) under their planned decentralized status so that it might increasingly improve the livelihood of their peoples.

Its purpose might be:

to assist local government units to plan, identify, contract, implement, manage, maintain, and evaluate small-scale infrastructure and other projects contributing to attainment of that goal.

Such a structure, properly staffed, would respond to local government needs in:

- Setting standards for subproject design, implementation, and performance through preparation of and training in feasibility study preparation, procurement, contracting, and other activities.
- Providing technical assistance directly or through intermediaries, and/or training only through intermediaries, in any of the above when requested by local governments.
- Prequalification of contractors and consultants.
- Financial planning and monitoring related to subproject activities.
- Ensuring the integration of subprojects into regional and national planning.
- Evaluation of subproject performance and impact through contractual studies.

In addition to those changes previously recommended, many of the present activities of the Secretariat would be altered under such a reorganization, but such activities would make a more permanent contribution to Philippine growth and development by encouraging sustainability and replicability. The evaluation team believes that the Secretariat/Project Management Office should:

- Not be responsible for direct implementation.
- Not pay construction contractors directly.
- Not do feasibility studies itself, except by exception.
- Not engage in subproject-level disbursements.
- Not itself carry out major evaluations of subprojects/programs.

The role of the Secretariat/PMO thus becomes a lean, highly professional organization contracting for technical advice when required, planning as appropriate, with the capacity to intervene by exception, not by convention. It could, for example, develop Indefinite Quantity Contracts with Filipino consulting/engineering firms for urgently required services, rather than maintain a large engineering capacity or many in-house consultants. Many of the present staff might find appropriate roles in a redefined organization. It clearly needs more technical skills, no matter how secured.

The uniqueness of this proposed office would no longer rely solely in its funding. It would differ from the Department of Local Government because it would be involved heavily with infrastructure, but it would also be different from the Department of Public Works and Highways because it would build capacities. It could be unique if it could respond quickly. The source of its funding thus becomes peripheral, even though it was the central reason for its formation. Conversely, it no longer becomes directly competitive with the DPWH, which has vastly more capacity, even though some of its activities would overlap.

Under this plan, the role of USAID would change; it would have minimal operational functions, concentrating instead on ensuring adequate procedures and standards for the organization, monitoring, in effect, the monitoring systems and, of course, authorizing final payments on inspection or audit, leaving routine activities to the Commission on Audit.

There is an inherent tension in the balance between the responsibilities of donor and recipient: the donor can be removed from implementation only when the recipient is bureaucratically and technically strong enough to assume these functions. Thus any realistic plan that concentrates on the desired results must be phased to consider the changing roles of USAID, the Secretariat, and selected local governments.

Programs

Projects addressing articulated social needs have been most successful, such as schools and roads. Income generating projects have generally failed to achieve their stated cost recovery objectives. Projects seem to have been chosen because: they were articulated needs, could be standardized, and expended significant amounts of funds.

Anecdotal evidence indicates that hospitals and clinics are well received and maintained (if equipment supply problems can be resolved), and that environmental concerns generally have not been addressed (with a few exceptions for drainage). USAID and the Secretariat/OPM might wish to consider major investments in waste water and waste disposal in the medium sized urban areas, or other environmentally significant activities (see Appendix 7 for a suggestion on the problems of Subic Bay).

A unique infrastructure contribution of the Secretariat might be to coordinate activities not now accomplished. For example, it could give priority to coordinated schools with roads complexes, which is now not normally done.

Management

In accordance with Philippine decentralization plans, thought should be given to lessening the management intensity of both the Secretariat/PMO and USAID, replacing over time such functions with local government authority, and providing (along with other donors who are similarly engaged) such specialized training as might be required.

The Secretariat/PMO staff on a highly selective basis might also be trained in such fields as feasibility study and evaluation analyses, so that they could monitor and judge the quality of contract activities.

Finance

USAID and the Secretariat should consider using pesos earned from interest as an experimental grant(s) to various carefully selected local government units for simple road and school subprojects to test their capacity for subproject design, contract management, and construction. Although such a plan, using funds once-removed from those appropriated, would reward those units with a record for capacity and probity, it would begin to test the pattern by closer, direct relations with local government. The team understands that the Philippine Government may have alternative views on the appropriateness of U.S. involvement in such funds.

Although the activities herein evaluated are ESF funds provided in support for mutually beneficial Philippine and U.S. purposes, the projects and their sub-activities are in essence developmental programs that could stand scrutiny in a Developmental Assistance account country in a similar circumstance as the Philippines. A successful reorganization and pursuit of new objectives should not preclude the possibility of non-ESF funding, that

ADDENDUM: USAID AND SECRETARIAT VIEWS

In reviewing USAID's and the Secretariat's responses to the draft report, we note that a majority of their comments fall into three general categories: (1) the degree to which a number of our recommendations have already been adopted and made operational by the Secretariat; (2) the validity of our conclusions and recommendations as they effect income generating subprojects; and (3) the appropriate role of USAID in the monitoring of subproject activities.

Prior to addressing each of the areas in detail, we would like to note one major problem pervasive throughout the evaluation; i.e., determining what was the current policy and agreed upon procedures as they related to the projects examined. Past history was relatively easy to ascertain; we have a high degree of confidence in the accuracy of our findings as they relate to the past. The situation on current status and future plans, however, is much less clear. This is due primarily to the existence of a number of draft documents in process and proposed plans to change existing policy and procedures and verbal agreements. There is a lack of documented correspondence indicating what has been formally adopted and/or agreed upon by USAID, or relationships within the Philippine Government. For example, it is unclear whether draft NEDA guidelines dated March 14, 1989 on Secretariat operations have been commented on by the Secretariat, are operational, or both.

1. Recommendations Already Adopted and Operational: We were pleased to learn that the Secretariat has already adopted and put into operation a number of the recommendations contained in this report. In our examination of project documentation and correspondence, however, we found it difficult to determine which policy changes and/or operational procedures had been in fact adopted and which had not. We believe this situation exists to a large degree because of high turnover in project management personnel over the past several years; i.e. proposals made to one executive Director do not appear to have been acted upon before they were replaced by new management, and because of the continuing fluidity of intra-government organizational relations. It is therefore difficult to determine the status of these proposals under new management. We feel that there is a need to document existing policy and procedures so that there is a high degree of continuity that all of the players are using the same ground rules.

2. Income Generating Projects: Our scope of work required us to examine and comment on the following factors as they relate to income generating projects:

a. "Are projects operating as planned in their respective Project Paper (PP) and Project Agreement (ProAg)?"

b. "Where there are significant deviations from the mechanisms described in the PP and ProAg, have they been clearly justified and documented?"

c. "For revenue generating subprojects, are the anticipated revenues and incomes being realized? If not, why?"

d. "Have the loan terms to the LGU's been determined according to the guidelines agreed upon by ESFS and USAID?"

e. "Based on evidence from on-going projects, is a 100% recovery rate on loans feasible?"

Based on our examination of a large sample of subprojects and project documentation, our findings on each of these questions is negative. The rationale on which these negative findings were based is discussed in detail in Section VI, A of the report. Many of the comments that we received regarding these findings focused on the sensibility of increasing the grant elements of these subprojects while minimizing the credit component. This is a policy question that should be discussed between the Mission and the Secretariat. Agreement should be reached before initiating any major new programs in this area. We would only caution that the abandonment of the credit program could seriously undermine other government programs that heavily utilize credit to carry out similar projects; e.g., PREMIUMED.

3. Our comments and recommendations on USAID's monitoring role of subprojects was not intended to suggest that USAID should abandon such activities, but rather that the intensity and manner in which they should be monitored might be examined within the context of the current situation. It was our general perception that as the result of bi-monthly inspections (many on projects that had been stalled for several years) and discussions with local officials regarding problems connected with these subprojects, local officials have increasingly looked to USAID as the organization responsible for solving existing problems connected with subprojects. In most cases we believe that this is an erroneous perception that often diverts the local governments from pursuing corrective action with those organizations where the responsibility really rests. In view of

this situation, we would suggest that a better approach would be for USAID Engineering staff to (1) visit subprojects somewhat less frequently; and (2) minimize their interaction with local officials regarding problem solving actions. Instead, their findings should be conveyed to the appropriate organization within the Secretariat, so that the Secretariat can initiate remedial action. Subsequent monitoring would then include actions taken by the Secretariat to resolve outstanding issues/problems.

ESFS COMMENTS ON THE PROCESS EVALUATION FINAL REPORT

By and large, the issues raised by the report reflect what have been our concerns at the Economic Support Fund secretariat (ESFS) in our continuing assessment of our efforts and the progress made by the ESF program.

In planning exercises early last year, the Secretariat already sought to reexamine and redefine its purposes and provide distinguishing features to its program of assistance from that offered by other government agencies. We have arrived at essentially the same conclusions: that our most effective and enduring contribution can be in the area of assisting the LGUs attain the means and the capability to plan, develop and implement projects on their own and that this assistance can come in the form of much needed technical support.

Many of the recommendations advanced by the report are therefore already gradually being implemented by the Secretariat.

On decentralization

The role of the LGU in project implementation has been expanded considerably. We have delegated to the LGUs certain authorities such as the invitation and prequalification of contractors, the conduct of bidding and award of contracts, project monitoring, approval of payments and acceptance of projects. We have also since the beginning been tapping the Regional Development Councils to assist the LGUs in identifying and screening project proposals for implementation.

We believe, however, that decentralization can only proceed in a phased manner, otherwise we may commit the same pitfalls of previous government programs where the funds and authorities have been brought down as an early recognition of the desirability to decentralize (and some LGUs have actually succeeded) but where the technical capabilities of most other local governments have been sadly lacking. Our experience in LGU project implementation has not assured us of the wisdom of totally delegating all implementing functions at this time.

The Secretariat is thus preparing provisions for this technical support, designing training programs and seminars for the LGUs in subproject design, construction, contract management and evaluation. Our timeframe for implementing these technical assistance and enhancement programs is early next year.

On the Status of the Secretariat

We cannot, however, subscribe to the report's observations that the Secretariat's status is unclear and that it exists in the fringes of Philippine bureaucracy. These issues have been brought to the discussion tables early on in the Aquino government's transition and have been decided by Executive Order No. 15 dated 8 May 1986 which placed the responsibility of planning and programming the ESF to the NEDA, retaining project implementation with the Secretariat under the Office of the President. This delineation of planning and implementing functions is essential to the system of checks and balances and effective project implementation and to insuring that ESF programs and projects fall within the priorities of the Philippine Development Plan.

On Strengthening the Secretariat's Technical and Internal Capabilities

These are concerns which the ongoing reorganization of the Secretariat hopes to address. We are beefing up our technical staff, hiring new engineers and reassigning non-engineers to planning and other functions where their backgrounds are better suited. The ESFS reorganization plan is furthermore flexible enough to consider establishing regional field offices which should strengthen links with the LGUs and should establish our role in relation to these and other cooperating agencies. We hope to complete the reorganization by the 4th quarter of this year.

Some Notes on the Markets Project

Circumstances both within and beyond our control resulted in the high cost of the markets. The Secretariat imposed stringent standards for their design (an imposition that is not without its merits) and most markets construction were undertaken within a period between 1983 and 1985 of particularly high inflation. Their design, moreover, moreover, took into consideration projections for increases in trade volume over the next few years.

Nevertheless we acknowledge that there may have been an overestimation of these factors. We are actually reviewing them and have initiated modifications to improve implementation and simplify design. A joint ESFS-USAID working group is being revived for this as well as for the purpose of addressing the issues of credit arrangements and other financing terms.

Be that as it may, it would be premature to judge the Markets Project and recommend its termination when its other components namely, credit, technical assistance and training are not yet fully operational.

Training comes as a crucial element of the project's success. This component provides for developing the managerial capacities of LGUs and installing the appropriate institutional mechanism that can realize the project's potential as a revenue source. Training in market management also takes care of insuring that conditions of health and sanitation in these markets are maintained.

Training component is already developed and slated for implementation next year. Properly implemented, it can be the take-off point of a more comprehensive program for institutional development which the secretariat envisions undertaking in the near future. It can serve as a test case of the extent and the type of institutional development that the Secretariat should embark on.

Finally, the public markets is based on the concept of 'public enterprise', which implies its being social good that meets certain socio-economic objectives beyond the mere objective of profit. It should therefore be judged by more than the parameters of revenues it generates.

NOTES ON THE APPENDICES

These appendices are intended to expand on elements of the report that are germane to understanding the complex milieu in which the Economic Support Fund projects operate in the Philippines.

Aspects of local government dominate the material. Miravalles' Appendix 4 describes the legal and administrative structure, while Alba's Appendix 5 some of the financial aspects of that scene. Fedel's Appendix 6 is largely concerned with maintenance at the local government level, while Steinberg's Appendix 3 delineates problems and opportunities associated with centralized bureaucratic entities that work on the periphery.

Appendix 8, by Dawson, Alingasa, and Steinberg review public markets and other income producing activities with special reference to Legaspi. Steinberg's Appendix 7 explores environmental problems associated with Subic Bay. Mansueto's Appendix 9 is concerned with the consulting and engineering industries in the Philippines. Miravalles and Alingasa deal with alternative measures for programming and financial management in Appendix 10.

The statistical and other materials included in Appendix 2 contain the following:

- 1 Projects Visited
- 2 Figure 1: ESF Peso Special Account Balances
- 3 Figure 2: Support Costs For Secretariat Operations
- 4 Figure 3: Proposed Subproject Financial Status Report
- 5 Figure 4: Funding System and Procedure
- 6 Figure 5: ESFS Funds Programming and Implementation System
- 7 Figure 6: Budgeting and Funds Availment System
- 8 Figure 7: Flowchart for Processing Program Payments
- 9 Figure 8: ESF Secretariat Organization Chart
- 10 Table 1: ESF Fiscal Year Obligations
- 11 Table 2: Breakdown of ESF Infrastructure Subprojects
- 12 Table 3: Distribution of ESF Subprojects by Province
- 13 Project Data Sheets
- 14 Map

APPENDIX 1

SECTION C - STATEMENT OF WORK

SCOPE OF WORK

Location of Response To Scope of Work I. Activities To Be Evaluated

The evaluation will cover the four ongoing projects being implemented by the ESF Secretariat (ESFS):

Project Title/ Number	Amount			
	Authorized	Obligated	Pipeline	PACD
Mun. Dev't. Fund (MDF) 492-0361	70,000	36,000	7,642	12/31/90
Proj. Design Project 492-0343	18,000	12,000	4,016	09/30/89
Reg'l. Dev't. Fund (RDF) 492-0374 Markets 492-0365	190,000 21,000	138,088 9,200	53,826 2,607	09/30/90 09/30/90

II. Purposes of the Evaluation

The ESF project portfolio is at a crucial junction. With the recent review of the Military Bases Agreement (MBA) resulting in a new ESF package for FYs 90 and 91, and the negotiations for a new bases agreement to start soon, a decision needs to be made as to the direction and programming of future ESF allocations. The proposed evaluation will focus on the effectiveness of processes established for the current portfolio of projects, and can serve as a guide for future programming decisions. A separate impact evaluation of all completed and ongoing ESF projects will be conducted after this evaluation is completed. The results of the two evaluations will be used by USAID and the GOP to set the tone for future ESF allocations.

VI.A2,&B. The primary issue to be addressed in this evaluation is the effectiveness of the institutions, structures and procedures used to implement the ESF portfolio, which will include an examination of the following: (a) the relationship between ESFS and the Local Government Units (LGU's) during implementation; (b) the capability of the LGU's to select, contract and implement small- and medium-sized development projects; (c) the roles of the various agencies/parties involved in the ESFS projects' implementation; (d) financial management procedures and accountability; and (e) the institutional development aspect of the projects.

VI.A2.b Other issues which will be considered are: (a) the need to continue the Project Design Project as a support mechanism for ESFS; (b) the role and need for outside consultants in monitoring infrastructure project development and implementation; and (c) the relevance of the types of projects being implemented to the current development needs of the Philippines.

VI.A2, B & C
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III. Background

A. The Economic Support Fund in the Philippines

Economic Support Fund Assistance to the Philippines evolved from several amendments to the 1947 Republic of the Philippines (RP) - U.S. Military Bases Agreement (MBA). In relation to the MBA, the Executive Branch of the U.S. Government makes a "best effort" commitment to secure from the U.S. Congress funding approval to provide economic assistance to the Government of the Philippines in the form of ESF. For the period FY 1980-84, the level of ESF was set at \$200 million. During the 1983 Review the U.S. Executive Branch again made a "best effort" commitment to secure \$475 million in ESF from the U.S. Congress for the period Fy 85-89. On October 17, 1988, a third agreement was signed by the two governments pledging a U.S. "best effort" to obtain \$360 million in ESF funds for FY 1990-91.

The 1979 Agreement did not clearly define what form the economic assistance would taken. It did state, however, four basic guiding principles: (1) a portion of ESF would be used to develop the reverted base lands; (2) money would be provided to improve the living conditions of the areas adjacent to the U.S. Facilities; (3) a release schedule for the money was set; and (4) the Development Assistance level to the Philippines would not be reduced as a result of added ESF grant assistance.

By the end of FY 1982, the U.S. and Philippine Governments had signed seven major ESF project agreements totalling more than

\$100 million. It was generally agreed that the remaining \$100 million for FY 83-84 would be added to the on-going projects. In FY 84, the Government of the Philippines (GOP) made a major decision to allow the use of ESF nationwide. During that year, a \$50 million allocation was programmed through the Schools and Roads Amendment to the Regional Development Fund (RDF) Project. With the implementation of the 1983 amendment to the MBA, the ESF program expanded from purely project assistance to include program assistance. In FY 85, \$92.5 million was transferred to the GOP to be used for balance of payments support and support for selected USAID, ADB and IBRD-assisted rural development projects, GOP rural productivity programs and other development programs.

In 1985, an additional \$35 million in ESF (over the amount provided for in the 1983 amendment to the MBA) was provided, and programmed into the RDF and Markets Projects. After the 1986 change of government, the U.S. Congress appropriated additional ESF funds totalling \$100 million, to help cover the GOP's large budget deficit. These funds, along with \$67.875 million deobligated from ongoing ESF projects, were provided to the GOP as budget support. Both project and program assistance were continued during FY 87. An additional \$150 million was transferred to the GOP as budget assistance. This was considered supplemental to the package relating to the MBA. Until 1987 the major share of project assistance was handled by the ESFS. In that year initial funding was provided for the Rural Infrastructure Fund Project, implemented by the Department of Public Works and Highways.

B. Implementation of the ESF Secretariat Projects

1. Participating Agencies

Subject to the approval of the President, the National Economic and Development Authority (NEDA) formulates policies on ESF for implementation and execution. The ESF Secretariat serves as the funding and implementing agency under the control of the Office of the President, to supervise execution of projects financed by ESF and executed by provincial, municipal and city governments. The ESF Secretariat currently has a staff of approximately 130 full-time professional, administrative, secretarial and clerical personnel. In addition, it has an "in-house" architecture and engineering (A & E) consultant which provides technical assistance on, among others; (a) review and update of the ESFS design and procurement manuals; (b) review and standardization of Requests for Technical Proposals, Invitation for Bids and contract documents; (c) review of technical proposals and contracts for feasibility study preparation, design and construction supervision services; and (d) training of ESFS staff in the application of the systems and procedures developed to facilitate work required; and (e) physical/financial monitoring of performance evaluation in project implementation. The consultant's full-time resident staff consists of two expatriate engineers, 15 local technical personnel and 16 administrative personnel.

In concert with national, regional, provincial, city and municipal governments, military and civilian entities, the private sector, and USAID, as appropriate, the ESF Secretariat assists in the identification, development, and implementation of development projects responsive to local initiatives. The ESF Secretariat contracts for the design of the projects to be funded and ensures that project proposals are technically, socially and economically sound, conform to the purposes for which ESF funds have been provided, and are properly documented for funding.

USAID, through its Office of Capital Development, has worked closely with the Secretariat in formulating the ESF operational framework, in preparing comprehensive implementing manuals, and in establishing necessary approval documentation. USAID plays an active role in the subproject approval and monitoring process under each project.

The local government units serve as the contracting agencies for the civil works and may supervise construction through their Project Management Offices. The ESF Secretariat contracts its own construction management and engineering supervision (CMES) consultant from the private sector to monitor construction in the field, while USAID has its field engineers also to monitor progress of the work.

2. Financial Arrangements

For the ESF Secretariat projects, AID transfers U.S. dollars to the Treasury of the GOP for its use as free foreign exchange in an amount equivalent to the estimated local currency requirements of the ESF activities agreed upon for the ensuing quarter. In exchange for this U.S. dollar transfer, the GOP deposits in a Special Account an equivalent amount of appropriated pesos to finance the local costs of agreed on ESF activities. The ESF Secretariat pays peso project costs from its General Fund, which is subject to the GOP's budget system and requires issuance of Advices of Allotment (AAs) and Funding Warrants. Upon disbursement from the General Fund, the same amount is reimbursed from the Special Account. Selected peso transfers from the Special Account such as those pertaining to final payments require the concurrence of USAID. Other payments may be post-audited by USAID. Foreign exchange requirements under the program are disbursed directly by AID.

IV. Statement of Work

The evaluation will focus primarily on the adequacy of the processes jointly developed by the GOP and USAID to implement four ESF-funded projects. Outputs will also be evaluated since they are an indicator of the performance of the processes. Essential areas to be addressed with corresponding questions are:

A. Project Goal Achievement

1. Are projects operating as planned in their respective Project Paper (PP) and Project Agreement (ProAg)? Where there are significant deviations from the mechanisms described in the PP and ProAg, have they been clearly justified and documented?

VI,A1

2. Do the outputs of the individual projects correspond to the programmed inputs? Have the collective project outputs contributed to attainment of project purposes?

VI
Passim

3. For revenue generating subprojects, are the anticipated revenues and incomes being realized? If not, why? Have the loan terms to the LGU's been determined according to guidelines agreed upon by ESFS and USAID? Based on evidence from on-going projects, is a 100% recovery rate on loans feasible?

VI,A1.a

B. Organization

VI,A2 Is the ESFS effective in managing the ESF projects, that is, is it ensuring that:

VI,A2
Passim
V

- subprojects approved for implementation are technically, socially and economically sound, conform to the purposes for which ESF funds have been provided and selected in accordance with guidelines agreed upon by ESFS, NEDA and USAID?

VI,A1,b&c

- subprojects are designed in accordance with GOP and USAID standards and meet other GOP agencies' requirements?

VI,A1&2

- subprojects are being constructed in accordance with plans?

VI,B2

- participating LGU's understand and meet their obligations under the GOP's Project Agreements?

VI,B1.

VI,A2.b

If not, what needs to be done to enable ESFS to carry-out its functions effectively? Does the ESFS need to hire additional technical and/or administrative staff? Does the staff need training or additional incentives?

- VI,A2.b
2. Is the ESFS' in-house A&E consultant carrying out its functions as intended in its contract (i.e., has it reviewed existing procedures and guidelines on the review/evaluation of bids, proposals, contracts, and contract amendments and has it made recommendations on improvements to such guidelines and procedures?) Has it assigned the required staff to the ESFS as outlined in the contract?
- V,
VI,B1
3. Do the ESFS' subproject and contract approval authorities enable it to act expeditiously in the design and implementation of subprojects, or does the ESFS have to seek approval/concurrence of other agencies on too many actions?
- V
VI,A2.
VI,A2.b
4. Has the ESFS set up effective working relationships and lines of communications between GOP agencies involved on the implementation of the ESF projects? In particular, does information flow between ESFS and LGU's (both ways) on a timely basis and in a clear, unambiguous manner? Does poor information flow handicap project implementation? If so, are there ways for informational flow to be improved?
- VI,B1
VI,B3
5. Is there good coordination between ESFS and USAID in the management of the ESFS projects? Are meetings held regularly and as needed in the office and in the field to abort or resolve implementation issues? Are reports being submitted by ESFS to USAID in accordance with agreed upon procedures?
- V
VI,A1.
VI,A2.
VI B3
6. Is USAID able to respond in a timely manner to requests of ESFS for approval of contracts, variation order, payments and other actions? If not, what needs to be done to improve USAID's performance? Does USAID need additional technical or administrative staff to work on the ESFS projects?

C. Procedural

- V
1. Does the GOP planning process facilitate speedy but rational subproject identification, development, approval and implementation? Does it take into account locally-established priorities consistent with provincial and regional development plans?
- VI,B.
VII
Passim
2. In relation to the planning and programming of funds for specific subprojects, are the roles of the LGU's ESFS, NEDA and USAID clear and appropriate? Are they in accordance with the role(s) set forth in the Project Documentation (PP, ProAg)? Is there close coordination between these offices in the planning and programming exercise?
- V
VI A 2 c
3. Are the roles of the Commission on Audit (COA) and the Department of Budget and Management (DBM) in the ESF project implementation process clear and appropriate? Can their participation be improved?
- VI A2 b
4. Have the CMES proven effective in identifying subproject implementation problems? Do the CMES effectively coordinate with the LGU's and assist them in upgrading their capabilities monitor infrastructure activities? Do they have engineers on site on all projects? Is there any noticeable variation in performance among CMES contracts?
- VI,B1
5. Does the ESFS have updated work programs for each subproject and if so, are these being used properly to track actual subproject progress? Does the ESFS have a system to determine the current status of consultancy and civil works contracts at any given time? If not, is there a need to set up such a system?

- VI A2c 6. Have the number of variation orders per subproject decreased over time as a result of improved design and/or more stringent review of designs? Are requests for variation orders being processed by ESFS in a timely manner? If not what are the causes of delays and how can these delays be resolved?
- V 7. Will USAID's reduced "50 steps" resolve existing procedural problems and be conducive to rapid subproject implementation while maintaining sufficient "checks" in the planning, design and contracting process?
- VI,A2.c 8. Are there close out procedures for each subproject? If so, do these procedures provide for speedy resolution of disputes?
- D. Financial
- VI,A2.c 1. Are the financial procedures developed by the GOP and USAID disbursing funds in a timely manner while maintaining the accountability required by the USG? Does the system of quarterly dollar remittances ensure continuously available peso funds in the ESF Special Account while avoiding a large peso balance sitting idle in the Account?
- VI A2 c 2. Does the ESFS have a system of tracking project commitments? If so, does this system ensure that there will be no over-commitment of funds under each project?
- VI,A2.c 3. Is the ESF Special Account's rate of peso disbursements meeting GOP and/or USAID targets? are contractors being paid in a timely manner in accordance with contract terms? If not, what are and which agency is responsible for the delays and how can these delays be avoided or minimized?

VI A2 c 4. Is the DBM responsive to the ESFS' requests to expedite issuances of AAs and FWs for the ESFS projects? Are they issuing AAs and FWs to the ESFS in a timely manner, e.g. within two weeks time?

E. Institutional Development

VI,A1.b
VI,A2.b
VI B2
VIII 1. With respect to the LGU's, what is their real capacity to implement infrastructure projects? How does this compare to the capacity projected in the PPs? If there are differences, why do these exist? Can the participation of the LGUs be increased? As a result of working with the LGU's on the implementation of the ESF projects, has the ESFS improved the LGU's capability to plan, design, contract and implement infrastructure subprojects? Are there specific deficiencies which could be resolved through provision of training in certain areas, i.e., project monitoring, financial analysis/management, etc.?

VI A2b 2. Does the ESFS have the capacity to manage the implementation of road subprojects which utilize labor intensive construction methods, similar to the method used under USAID's Upland Access Project? If not, should this capacity be developed at the ESFS and how can this be done?

VI A2b 3. Do the LGUs have enough technical personnel such as planners and engineers in their staff who are qualified to supervise the planning and implementation of infrastructure subprojects? Do these LGUs have the necessary logistical support for them to effectively implement the subprojects?

VI A2b 4. Is the new role of the CMES as "works engineer" consistent with the institutional development objectives of the projects? Do the LGUs understand and accept the role of the CMES as "works engineer" for their subprojects?

5. To what extent (if any) has "technology transfer" occurred from the ESFS' in-house engineering consultant to the ESFS staff? Has the ESFS' technical capability improved as a result of the staff's interaction with the in-house engineering consultant? Have they adopted better work procedures, improved forms and higher engineering standards in their design and contracting activities?

VI A2b

V. Methods and Procedures

A team orientation meeting will be held in Washington with AID/W personnel from ANE/PD, DP, EA. A two-day planning session will be held in or near Manila jointly with USAID and ESFS upon arrival in the Philippines to discuss, among others, further details on the scope of other GOP offices as necessary, and through site visits to subprojects implemented at the municipal, city and provincial levels. Where possible, personnel from ESFS and/or USAID will accompany or otherwise facilitate contacts, and interact with the evaluation team to the maximum extent possible.

The team is expected to spend two of the six work weeks out in the field to interview pre-selected LGUs and observe the implementation of ongoing subprojects and the operations of completed subprojects. The LGUs will be jointly pre-selected by ESFS and USAID based on certain criteria. It is understood that conclusions that will be drawn by the team from the sample of LGUs and subprojects pertain only to that particular subset and do not necessarily represent the whole universe of LGUs and subprojects under the ESFS projects.

VI. Composition of Evaluation Team

It is anticipated that a six-person team will be required for a duration of approximately six weeks. Six-day work weeks are authorized. The team shall be composed of: (1) a team leader with management experience and with considerable A.I.D. implementation and evaluation experience, (2) an engineer familiar with the design and implementation of A.I.D. infrastructure projects, (3) an engineer with experience in the design and implementation of GOP infrastructure projects, (4) a person with financial/accounting/MIS background, (5) a Philippine Local Government Specialist and (6) a project planner familiar with A.I.D. project development and implementation. It is anticipated that at least three of these team members will be Philippine Nationals recruited locally. In addition, the contractor will provide the services of a team planning facilitator.

APPENDIX 2

PROJECTS VISITED

REGION I	SCHOOLS	ROADS	MARKETS	OTHERS
Benguet	3	1	2	1 Slaughterhouse
La Union	6	1	-	1 Solid waste Disposal
Pangasinan	-	-	1	Urdaneta
	9	2	3	2
REGION II				
REGION III				
Tarlac	9	6	4	1 Similar Municipal Drainage
Zambales	1	2	5	1 Olongapo, Solid Waste
Pampanga	8	1	1	1 Livestock Marke 1 Drainage 1 District Hospital 2 Resettlement Projects 1 Water Supply 1 Industrial Zone 1 Slaughterhouse
Nueva Ecija	9	2	1	Guimba
Bulacan	1	2	1	Sta. Maria
Bataan	3	2	1	Dinalupihan
	31	15	13	14
REGION IV				
REGION V				
Albay	1	1	1	Legaspi
REGION VI				

REGION VII

Cebu	2	4	-	
Neg.Oriental	1	2	1	Dumaguete
	3	6	1	

REGION VIII

REGION IX

REGION X

REGION XI	SCHOOLS	ROAD	MARKETS	OTHERS
South Cotabato	9	4		1 Bridge
Davao del Sur	6	1		
Davao City	2	3		
	17	8		1
Total	61	32	19	18

Projects Visited by Consultants to the following Region:

- REGION I - J. Dawson
 L. Miravalles
 R. Fedel
 Benguet, La Union, Pangasinan
 REGION III - J. Dawson
 R. Fedel
 L. Miravalles
 Tarlac & Pampanga
 REGION III - A. Mansueto
 D. Steinberg
 Nueva Ecija, Bulacan, Bataan, Zambales
 REGION V - J. Dawson
 B. Alingasa
 Albay
 REGION VII - A. Mansueto
 R. Fedel
 Cebu & Negros Oriental
 REGION XI - D. Steinberg
 L. Miravalles
 South Cotabato, Davao del Sur & Davao City

ESF PESO SPECIAL ACCOUNT BALANCES
(PESO MILLIONS)

Pesos
Millions

9/85 3/86 9/86 3/87 9/87 3/88 9/88 3/89

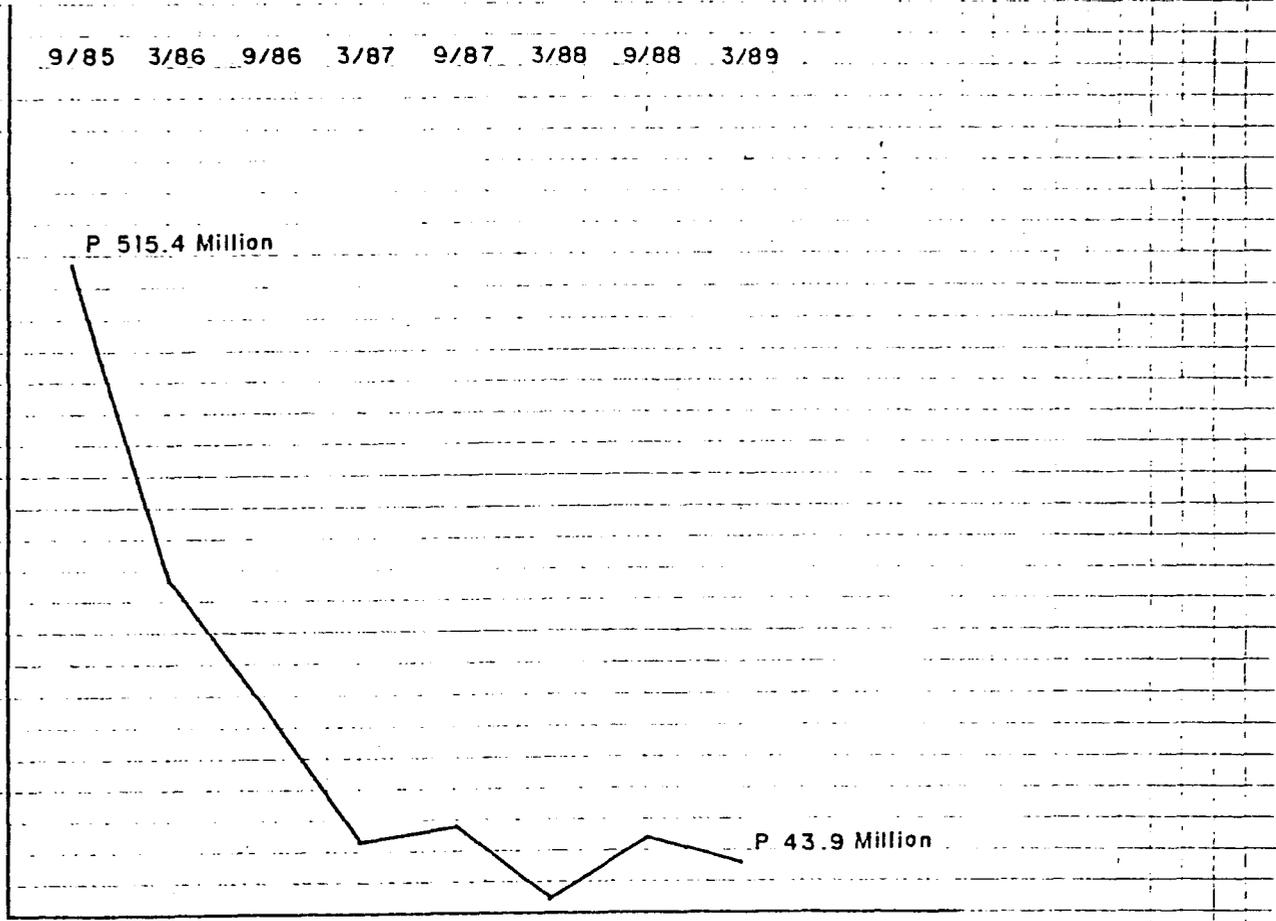
600
575
550
525
500
475
450
425
400
375
350
325
300
275
250
225
200
175
150
125
100
75
50
25
0

P 515.4 Million

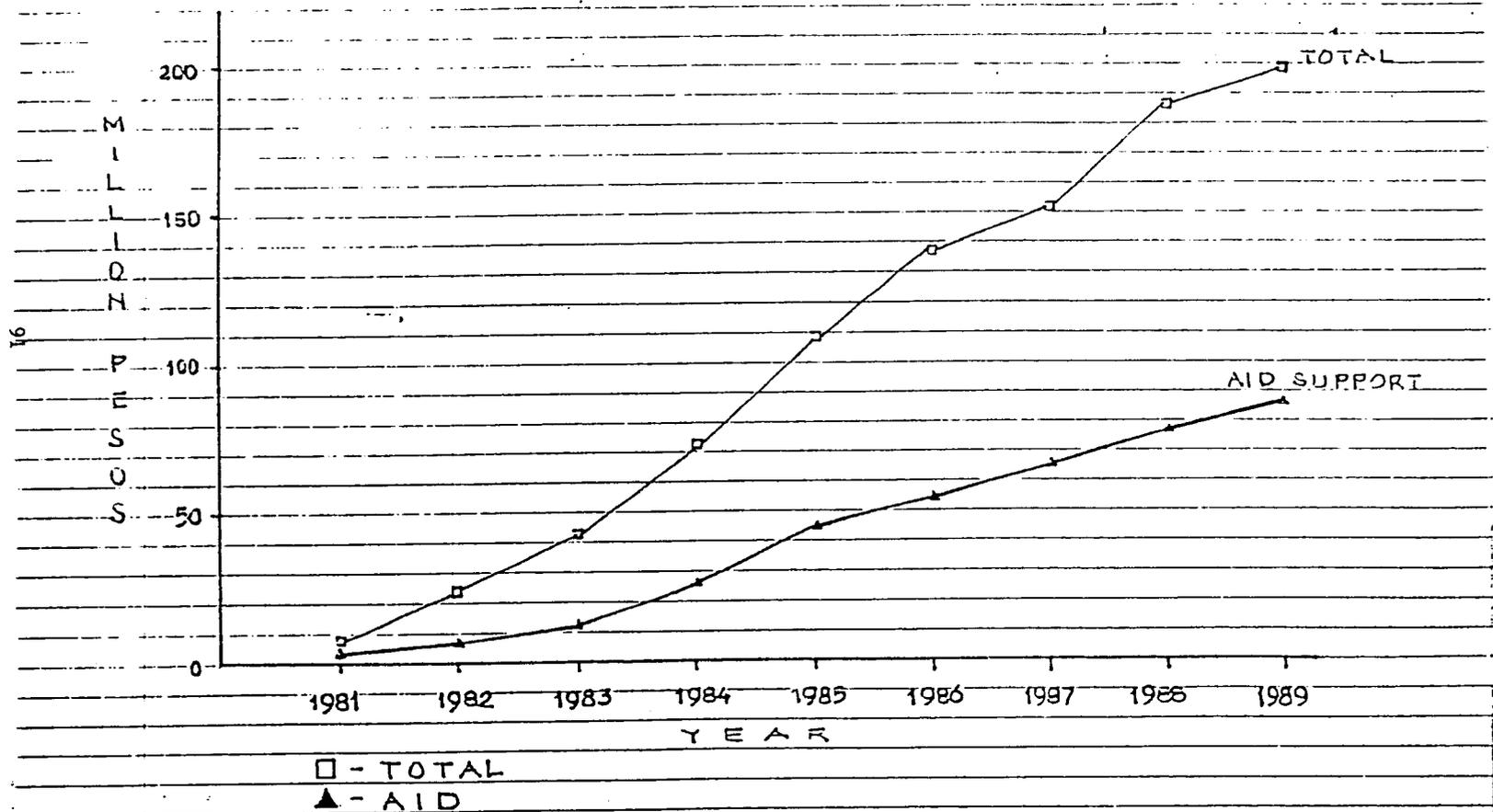
P 43.9 Million

06

FIGURE 1



CUMULATIVE FUNDING SUPPORT COSTS
FOR E.S.F. OPERATIONS



**REGIONAL DEVELOPMENT FUND PROJECT
SUBPROJECT FINANCIAL STATUS REPORT
AID PROJECT NUMBER**

Project Code (No.)	Type Project (Code)	Project Title (Name)	Location (Province)	Budget Allocation: Amounts (Pesos)	Commitments Contract Amount (Pesos)	(%)	Expenditures Contract Payments (Pesos)	(%)	Disbursements Contract Payments (Pesos)	(%)	Project Status (Percent Completion) (Comments/Remarks)
92											
TOTAL OF FUNDS COMMITTED TO PROJECTS											
TOTAL OF FUNDS NOT BUDGETED OR COMMITTED											
FUNDS TRANSFERRED TO RDP											
FUNDS NOT TRANSFERRED TO RDP											
TOTAL AVAILABLE FUNDS FOR RDP											

NOTES:

BUDGET ALLOCATION = Total Funds required for subprojects (Design, Supervision of Construction, Civil Works, Commodities, Escalation and Contingencies)

COMMITMENTS CONTRACTS = Total Funds required for Subprojects (Design, Supervision of Construction, Civil Works, Commodities, Escalation and Contingencies)

EXPENDITURES CONTRACTS = Total Funds required for Subprojects (Design, Supervision of Construction, Civil Works, Commodities, Escalation and Contingencies)

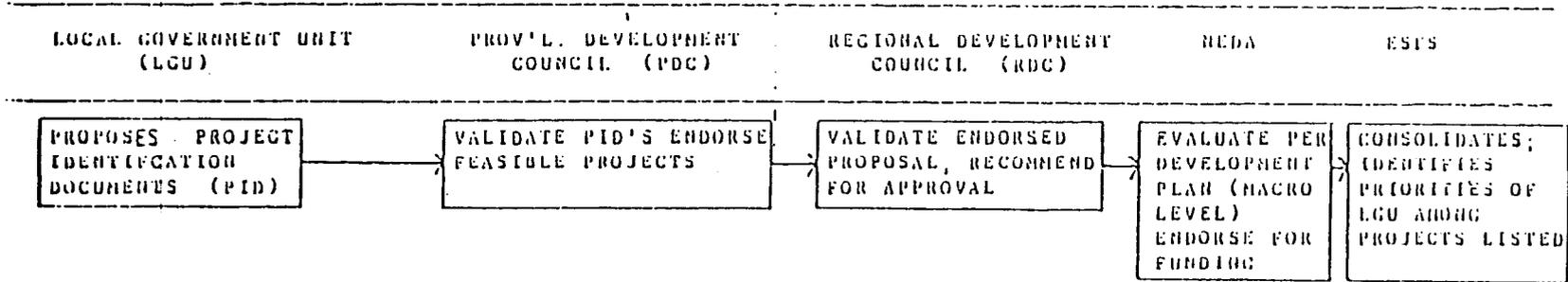
DISBURSEMENTS CONTRACTS = Total Funds required for Subprojects (Design, Supervision of Construction, Civil Works, Commodities, Escalation and Contingencies)

UNDISBURSED BUDGET = Total Funds required for Subprojects (Design, Supervision of Construction, Civil Works, Commodities, Escalation and Contingencies)

FIGURE 3

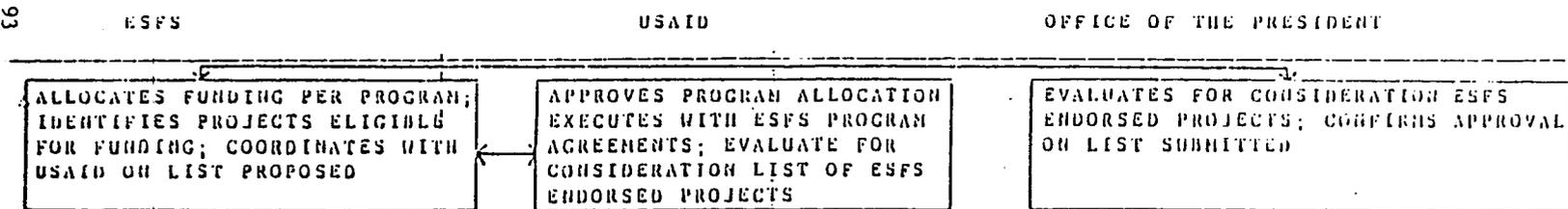
ECONOMIC SUPPORT FUND SECRETARIAT
FUNDING SYSTEM AND PROCEDURE

A. PROJECT IDENTIFICATION



APPROVAL OF PROJECT PROPOSALS

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PROJECT DEVELOPMENT

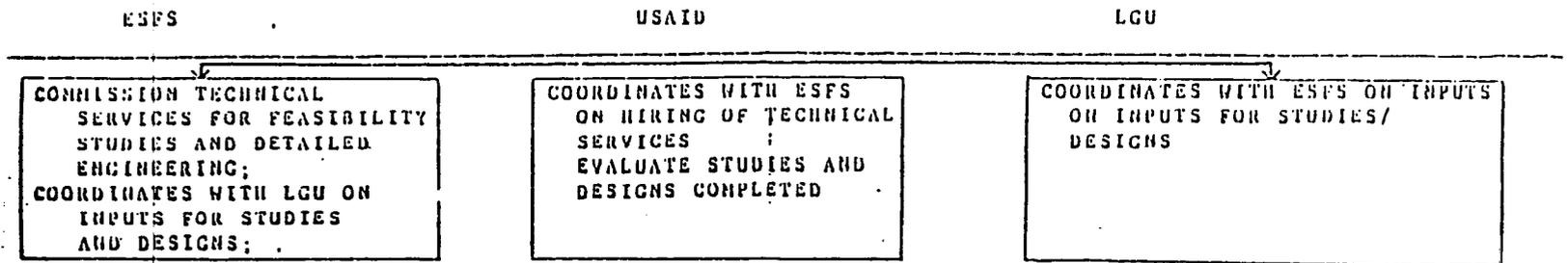


FIGURE 4

PROJECT IMPLEMENTATION

ESFS

LGU

USAID

FINALIZE BID DOCUMENTATION
AND PROCEDURES;
EVALUATES PREQUALIFICATION
OF CONTRACTORS;
SUPERVISE CONTRACTING FOR
CONSTRUCTION SERVICES
APPROVES CONTRACTS
MONITOR IMPLEMENTATION
DIRECT PAYMENTS TO
CONTRACTORS;
PROVIDE CONSTRUCTION
MANAGEMENT SERVICES;
EXECUTE PROJECT AGREEMENTS
WITH LGU

CONTRACTING FOR CONSTRUCTION
SERVICES;
EXECUTE PROJECT AGREEMENT
WITH ESFS;
MONITOR PROJECT;
ENDORSED PAYMENT CLAIMS

EVALUATES CONSTRUCTION CONTRACTS
CONTRACTS
PARTICIPATES IN CONTRACTING
PROCEDURES
MONITOR PROGRESS OF CONSTRUCTION;
APPROVES PAYMENT TO CONTRACTORS

ESFS FUNDS PROGRAMMING AND IMPLEMENTATION SYSTEM

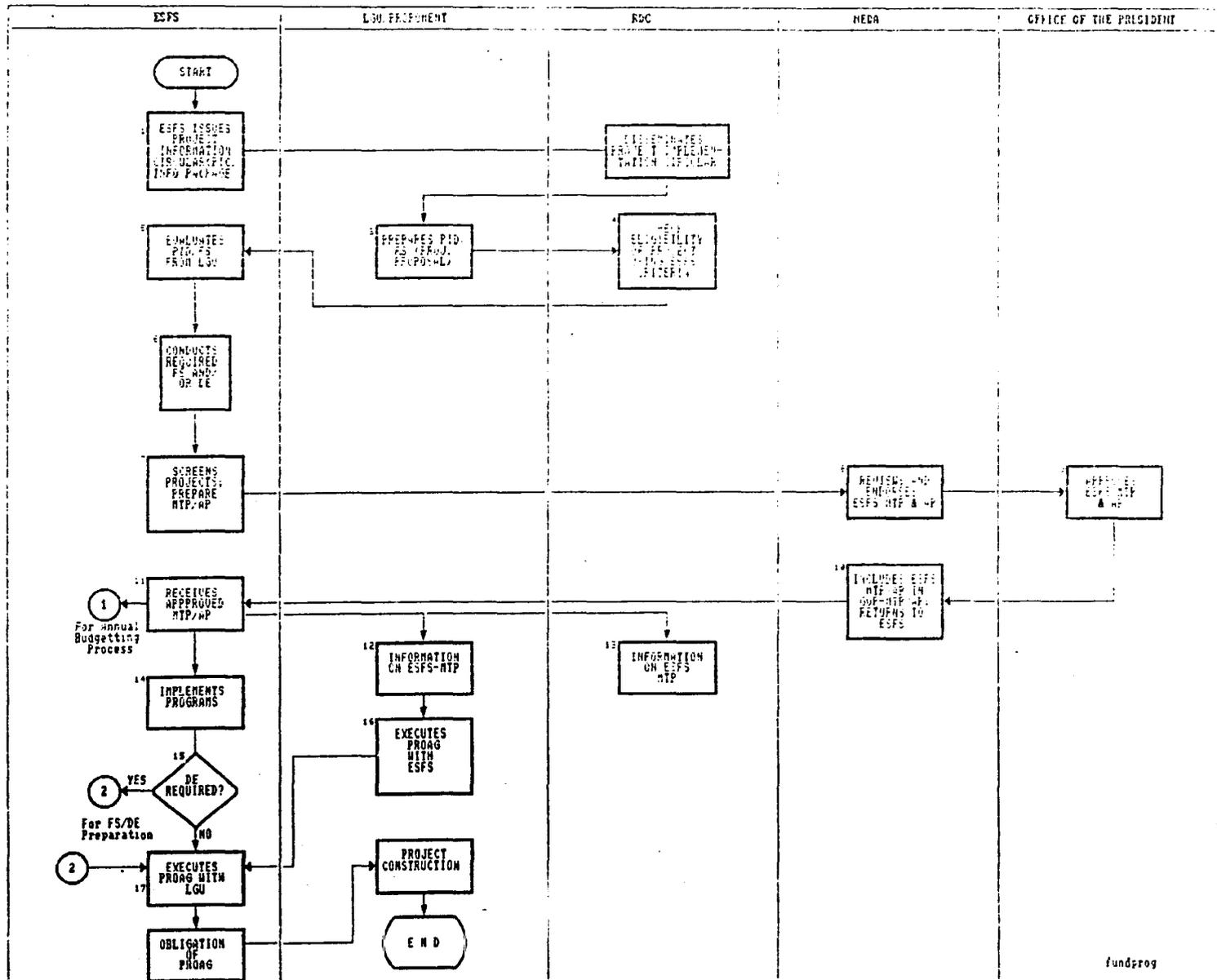
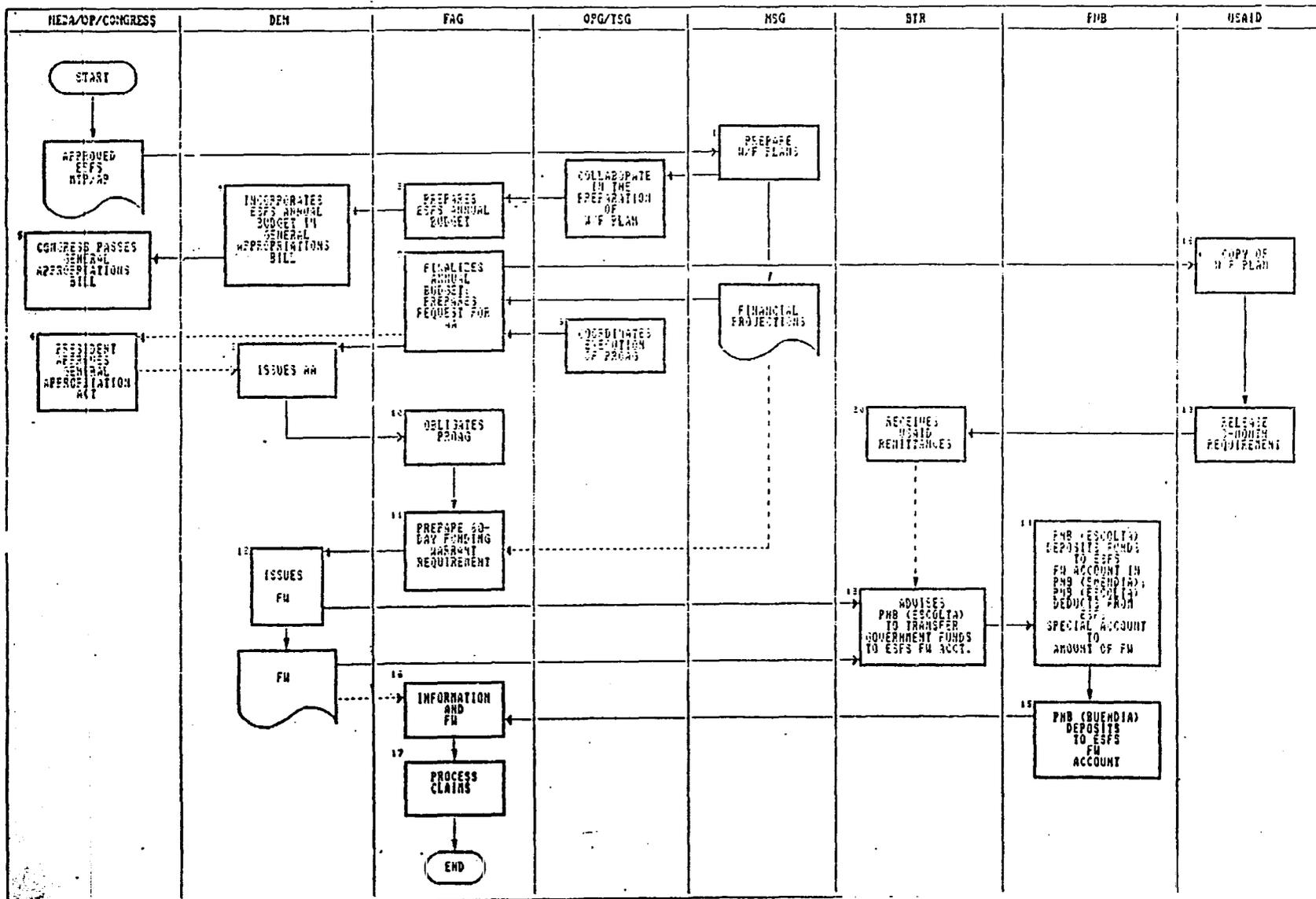


FIGURE 5

BUDGETING AND FUNDS AVAILMENT SYSTEM

AS OF APRIL 1979



96

FIGURE 6

FLOWCHART FOR PROCESSING PROGRESS PAYMENTS OF CIVIL WORKS CONTRACTS as of 11 April 1989

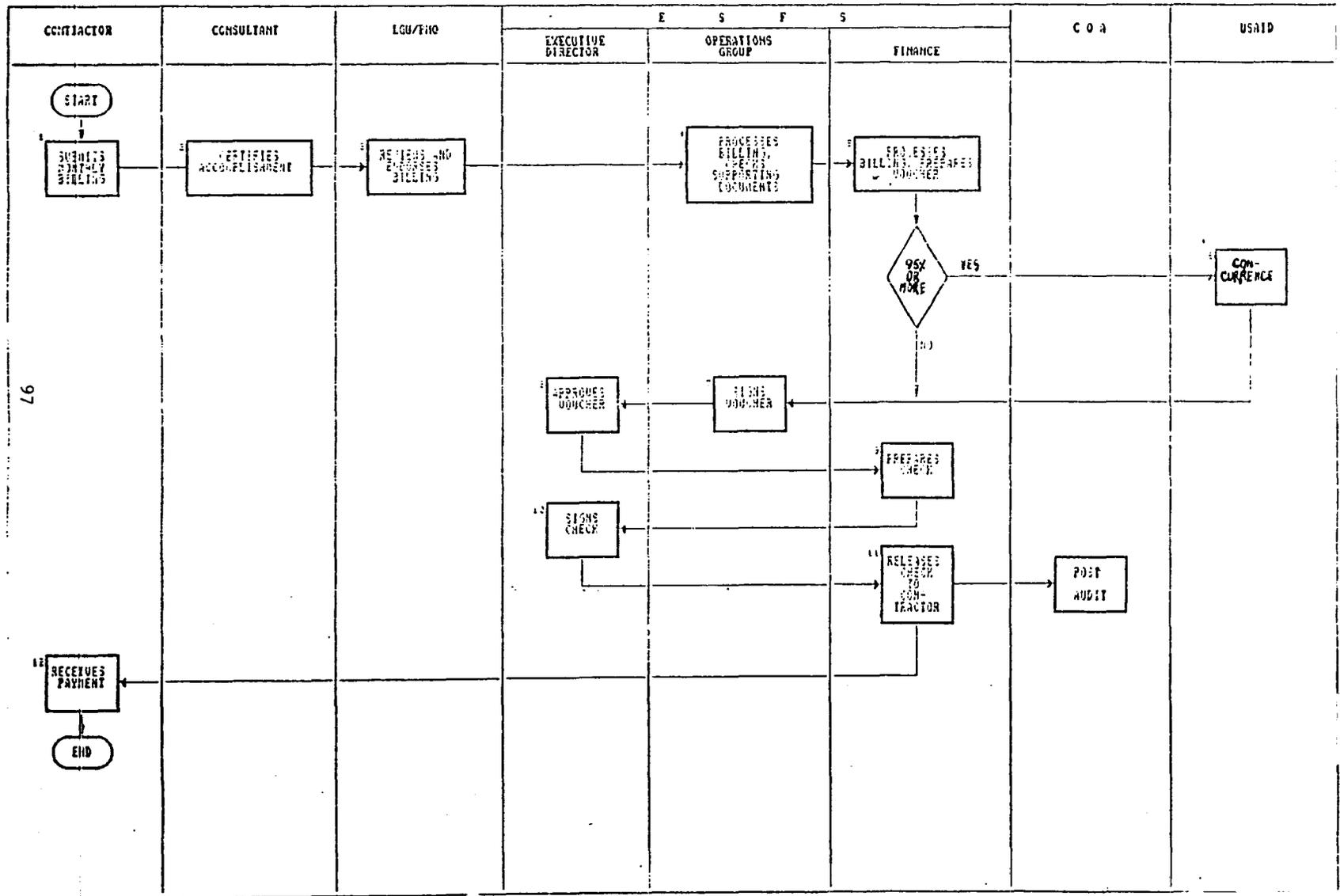


FIGURE 8

ECONOMIC SUPPORT FUND SECRETARIAT
ORGANIZATIONAL CHART

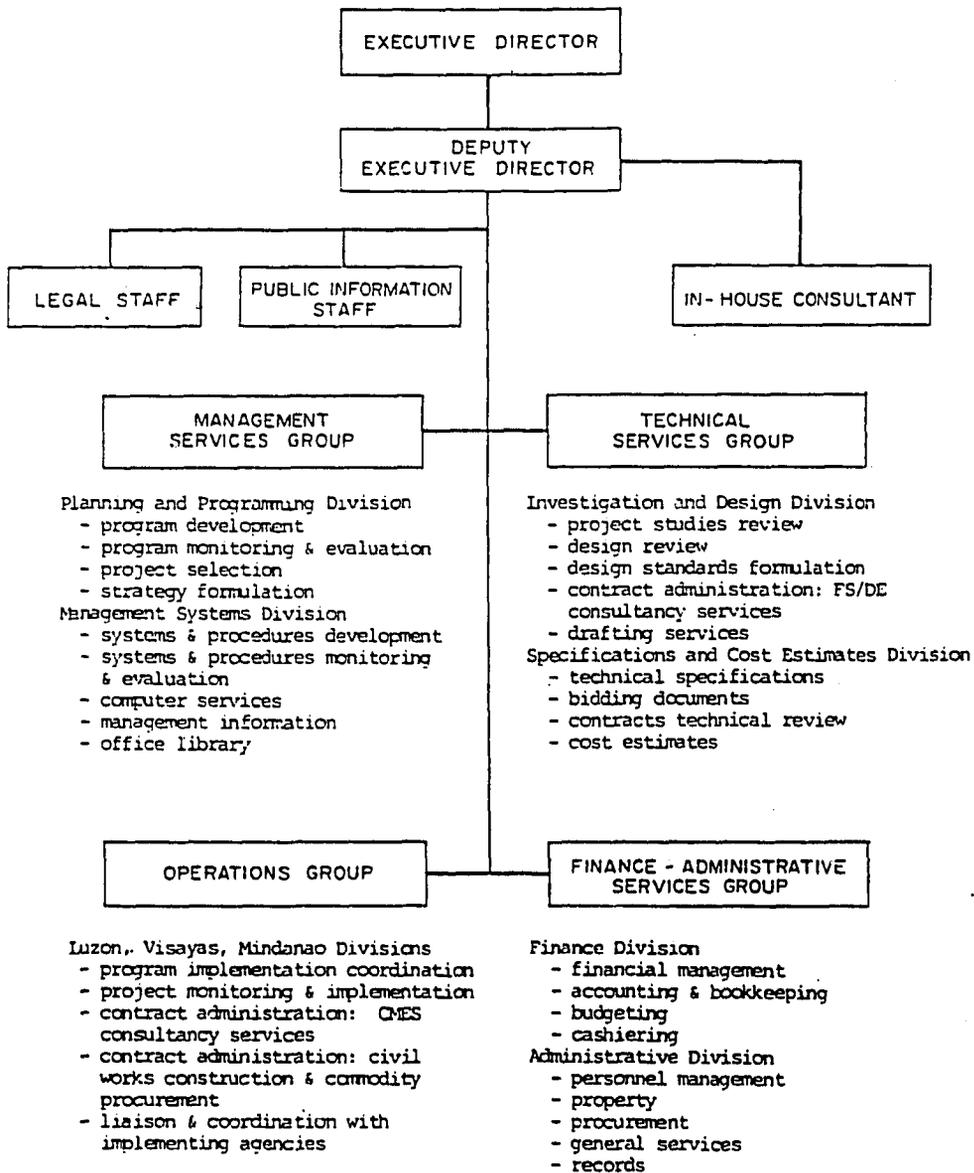


TABLE 1

ECONOMIC SUPPORT FUND PROGRAM
ESF Obligations under Project and Program Agreements
(As of December 31, 1988)

FISCAL YEAR

	80	91	82	83	84	85	86	87	88	TOTAL
	(Millions of Dollars)									
I. PROJECT ASSISTANCE										
Project Design	2	3	2	0	0	2.0	0.000	3.00	0	12.000
Elementary School Construction	18	0	0	0	0	0.0	0.000	0.00	0	18.000
Municipal Development Fund	0	22	13	20	0	0.0	(19.000)	0.00	0	36.000
Clark Access and Feeder Roads	0	5	0	0	0	(0.5)	0.000	0.00	0	4.500
Rural Energy Dev't.	0	0	11	7	0	(12.0)	(2.500)	0.00	0	3.500
Regional Dev't. Fund	0	0	20	15	50	36.5	(34.575)	30.00	0	116.925
Markets	0	0	4	8	0	9.0	(11.800)	0.00	0	9.200
Rural Infrs. Fund	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.0</u>	<u>0.000</u>	<u>51.19</u>	<u>0</u>	<u>51.190</u>
	<u>20</u>	<u>30</u>	<u>50</u>	<u>50</u>	<u>50</u>	<u>35.0</u>	<u>(67.875)</u>	<u>84.19</u>	<u>0</u>	<u>251.315</u>
II. NON-PROJECT ASSISTANCE										
Rural Productivity Support Program	0	0	0	0	0	47.5	0.000	0.00	0	47.500
Development Support Program	0	0	0	0	0	45.0	0.000	0.00	0	45.000
Budget Support Program	0	0	0	0	0	0.0	300.000	0.00	0	300.000
Budget Support Program II	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.0</u>	<u>0.000</u>	<u>150.00</u>	<u>0</u>	<u>150.000</u>
Sub-Total	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>92.5</u>	<u>300.000</u>	<u>150.00</u>	<u>0</u>	<u>542.500</u>
III. OTHERS										
Civic Action Program	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.0</u>	<u>0.000</u>	<u>0.00</u>	<u>15</u>	<u>15.000</u>
T O T A L	<u>20</u>	<u>30</u>	<u>50</u>	<u>50</u>	<u>50</u>	<u>127.5</u>	<u>232.125</u>	<u>234.19</u>	<u>15</u>	<u>808.815</u>

Note: 1) Amounts in parentheses indicate deobligations. All deobligated funds were reobligated under the budget support program.

TABLE 2

MEMORANDUM OF EBF SECRETARIAT INFRASTRUCTURE SUBPROJECTS (Approved, Ongoing and Completed)
Number and Estimated Cost as of March 31, 1989

REGION	TYPE OF ACTIVITY	ELEM. SCHLS	RDF	RDF	RDF S&F	RDF SCHLS	RDF AMEND. \$5	M/TS	CLARK ACCESS	TOTAL #	PM	INTEREST EARNINGS	G. TOTAL #									
I	Schools	45	8.0	0	7.8	0	0.0	111	34.7	E	32.8	0	0.0	0	0.0	0	0.0	165	86.9	9	N/A	175
	Roads	0	0.0	0	0.0	0	0.0	125	28.7	0	0.0	0	0.0	0	0.0	0	0.0	125	28.7	0	N/A	125
	Markets	0	0.0	2	30.6	0	0.0	0	0.0	0	0.0	1	19.9	0	0.0	0	0.0	3	50.5	1	N/A	4
	SI'houses	0	0.0	1	11.2	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	1	11.2	0	N/A	1
	S. Waste Mgt	0	0.0	1	4.5	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	1	4.5	0	N/A	1
	Nav. Aids	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	N/A	0
	Sub-Total	45	8.0	3	54.1	0	0.0	235	53.0	E	32.8	0	0.0	1	19.9	0	0.0	257	175.8	10		305
II	Schools	50	7.1	0	0.0	0	0.0	168	30.9	E	32.8	0	0.0	0	0.0	0	0.0	158	70.8	5	N/A	176
	Roads	0	0.0	0	0.0	0	0.0	80	17.7	0	0.0	0	0.0	0	0.0	0	0.0	80	17.7	0	N/A	80
	Markets	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	1	29.6	0	0.0	0	0.0	1	29.6	15	N/A	16
	Ports	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	N/A	0
	Nav. Aids	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	N/A	0
		0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	N/A	0
	Sub-Total	50	7.1	0	0.0	0	0.0	168	48.6	E	32.8	0	0.0	1	29.6	0	0.0	249	118.1	21		272
III	Schools	228	48.2	18	98.1	14	85.8	72	22.8	0	0.0	2	11.2	0	0.0	0	0.0	334	265.1	0	N/A	334
	Roads	0	0.0	5	93.1	12	142.0	73	15.2	0	0.0	28	157.9	0	0.0	1	71.3	120	479.5	0	N/A	120
	Markets	0	0.0	13	168.1	10	145.8	0	0.0	0	0.0	3	23.0	0	0.0	0	0.0	25	356.9	2	N/A	28
	SI'houses	0	0.0	4	41.1	0	0.0	0	0.0	0	0.0	1	2.1	0	0.0	0	0.0	5	43.2	0	N/A	5
	Hospitals	0	0.0	0	0.0	4	57.4	0	0.0	0	0.0	1	3.2	0	0.0	0	0.0	5	60.6	0	N/A	5
	Nav. Aids	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	N/A	0
	Others	0	0.0	4	58.7	4	97.4	0	0.0	0	0.0	1	19.0	0	0.0	0	0.0	9	175.3	0	N/A	9
	Sub-Total	228	48.2	45	459.1	44	549.6	145	38.0	0	0.0	36	216.4	0	0.0	1	71.3	499	1380.6	2		501
IV	Schools	124	17.0	0	0.0	0	0.0	142	44.5	E	32.8	0	0.0	0	0.0	0	0.0	274	94.3	15	N/A	289
	Roads	0	0.0	0	0.0	0	0.0	142	29.0	0	0.0	0	0.0	0	0.0	0	0.0	142	29.0	0	N/A	142
	Markets	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	3	N/A	3
	Ports	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	N/A	0
		0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	N/A	0
	Sub-Total	124	17.0	0	0.0	0	0.0	284	73.5	E	32.8	0	0.0	0	0.0	0	0.0	416	123.3	18		434
V	Schools	66	8.9	0	0.0	0	0.0	98	24.8	E	37.3	0	0.0	0	0.0	0	0.0	172	71.0	16	N/A	188
	Roads	0	0.0	0	0.0	0	0.0	68	15.2	0	0.0	0	0.0	0	0.0	0	0.0	68	15.2	0	N/A	68
	Markets	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	1	28.8	0	0.0	0	0.0	1	28.8	4	N/A	5
	Ports	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	N/A	0
	Nav. Aids	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	N/A	0
	Sub-Total	66	8.9	0	0.0	0	0.0	166	40.0	E	37.3	0	0.0	1	28.8	0	0.0	241	115.0	20		261
VI	Schools	95	12.7	0	0.0	0	0.0	152	44.5	E	36.9	0	0.0	0	0.0	0	0.0	255	94.1	15	N/A	275
	Roads	0	0.0	0	0.0	0	0.0	81	15.2	0	0.0	0	0.0	0	0.0	0	0.0	81	15.2	0	N/A	81
	Markets	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	1	20.9	0	0.0	0	0.0	1	20.9	0	N/A	1
	Nav. Aids	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	N/A	0
	Sub-Total	95	12.7	0	0.0	0	0.0	233	59.7	E	36.9	0	0.0	1	20.9	0	0.0	336	130.2	15		357
VII	Schools	65	5.7	0	0.0	0	0.0	112	37.0	E	28.7	0	0.0	0	0.0	0	0.0	187	71.0	13	N/A	200
	Roads	0	0.0	0	0.0	0	0.0	52	9.7	0	0.0	0	0.0	0	0.0	0	0.0	52	9.7	0	N/A	52
	Markets	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	1	24.2	0	0.0	0	0.0	1	24.2	0	N/A	1
	Ports	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	N/A	0
	Nav. Aids	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	N/A	0
	Sub-Total	65	5.7	0	0.0	0	0.0	164	46.7	E	28.7	0	0.0	1	24.2	0	0.0	240	104.9	13		257

VIII	Schools	85	11.7	0	0.0	0	0.0	215	65.5	4	15.4	0	0.0	0	0.0	308	94.2	21	N/A	329
	Roads	0	0.0	0	0.0	0	0.0	123	15.2	0	0.0	0	0.0	0	0.0	123	15.2	0	N/A	123
	Markets	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	3	N/A	3
	Ports	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	N/A	0
	Sub-Total	85	11.7	0	0.0	0	0.0	342	91.7	4	15.4	0	0.0	0	0.0	431	109.4	24		455
IX	Schools	0	0.0	0	0.0	0	0.0	68	19.0	8	32.8	0	0.0	0	0.0	76	51.8	14	N/A	90
	Roads	0	0.0	0	0.0	0	0.0	52	12.6	0	0.0	0	0.0	0	0.0	52	12.6	0	N/A	52
	Sub-Total	0	0.0	0	0.0	0	0.0	124	31.6	8	32.8	0	0.0	0	0.0	132	64.4	14		146
X	Schools	16	2.2	0	0.0	0	0.0	144	39.7	8	32.8	0	0.0	0	0.0	168	74.7	8	N/A	176
	Roads	0	0.0	0	0.0	0	0.0	87	17.7	0	0.0	0	0.0	0	0.0	87	17.7	0	N/A	87
	Markets	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	3	N/A	3
	Ports	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	N/A	0
	Nav. Aids	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	N/A	0
	Sub-Total	16	2.2	0	0.0	0	0.0	231	57.4	8	32.8	0	0.0	0	0.0	255	92.4	11		266
XI	Schools	37	5.0	0	0.0	0	0.0	68	19.0	9	36.9	0	0.0	0	0.0	112	61.4	9	N/A	121
	Roads	0	0.0	0	0.0	0	0.0	52	12.6	0	0.0	0	0.0	0	0.0	52	12.6	0	N/A	52
	Markets	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	7	N/A	7
	Ports	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	N/A	0
	Nav. Aids	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	N/A	0
	Sub-Total	37	5.0	0	0.0	0	0.0	118	32.1	9	36.7	0	0.0	0	0.0	164	74.0	16		180
XII	Schools	0	0.0	0	0.0	0	0.0	76	19.0	8	32.8	0	0.0	0	0.0	84	51.8	6	N/A	90
	Roads	0	0.0	0	0.0	0	0.0	69	12.2	0	0.0	0	0.0	0	0.0	69	12.2	0	N/A	69
	Markets	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	N/A	0
	Nav. Aids	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	N/A	0
	Sub-Total	0	0.0	0	0.0	0	0.0	145	31.2	8	32.8	0	0.0	0	0.0	153	64.0	6		159
NCF	Schools	81	9.1	0	0.0	0	0.0	17	15.2	8	41.8	0	0.0	0	0.0	106	61.1	0	N/A	106
	Roads	0	0.0	0	0.0	0	0.0	119	39.2	0	0.0	0	0.0	0	0.0	119	39.2	0	N/A	119
	Nav. Aids	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	N/A	0
	Sub-Total	81	9.1	0	0.0	0	0.0	136	54.4	8	41.8	0	0.0	0	0.0	225	105.3	0		225

GRAND TOTAL 897 134.8 51 510.2 44 549.6 2515 653.9 93 394.6 36 216.4 5 123.4 1 71.3 3642 2657.4 176 3818

TOTAL BY TYPE * PM

Schools 2411 1147.1
 Roads 1177 704.52
 Markets 32 516.9
 Others 21 294.7

TOTAL REGULAR PROJECTS 3642 2657.4

IE Schools 136
 IE Rural Markets 36
 IE Large Markets 0

TOTAL IE SUBPROJECTS 172

GRAND TOTAL 3818

Prepared by: OGD/USAID/M

TABLE 3

DISTRIBUTION OF ECONOMIC SUPPORT FUND SUBPROJECTS BY PROVINCE

1982 - February 28, 1989

Province	No. of Sub Projects	Amount (pesos)	Population (1980)	Per Capita Expenditure
Ilocos Norte	45	15,104,910	391,000	38.6
Abra	29	6,504,252	160,000	40.7
Mt. Province	28	6,120,591	103,000	59.4
Ilocos Sur	31	6,997,195	444,000	15.7
La Union	38	24,312,039	453,000	53.7
Benguet	41	44,976,332	355,000	126.7
Pangasinan	77	40,147,953	1,636,000	24.5
Batanes	19	6,330,000	12,000	527.5
Cagayan	59	40,847,422	711,000	57.5
Kalinga-Apayao	37	8,179,551	185,000	44.2
Ifugao	15	5,965,106	111,000	53.7
Isabela	52	9,507,056	871,000	10.9
Nueva Vizcaya	37	7,710,765	325,000	23.7
Quirino	22	6,321,400		
Nueva Ecija	91	161,633,066	1,069,000	151.2
Zambales	61	199,136,532	440,000	448.5
Tarlac	79	343,632,884	689,000	498.7
Bataan	44	151,609,978	323,000	469.4
Pampanga	132	290,956,727	1,182,000	246.2
Bulacan	69	66,022,004	1,096,000	60.2
Quezon	56	9,224,116	1,236,000	7.5
Rizal	14	7,533,525	556,000	13.5
Cavite	40	8,210,727	771,000	10.6
Laguna	46	7,977,665	973,000	8.2
Batangas	33	8,937,032	1,174,000	7.6
Mindoro Occ.	48	7,574,229	222,000	34.1
Mindoro Or.	31	7,983,018	447,000	17.9
Marinduque	20	7,908,069	174,000	45.4
Romblon	40	7,491,973	193,000	38.8
Palawan	25	6,780,700	372,000	18.2
Aurora	35	7,692,455		
Camarines Norte	19	5,230,306	308,000	17.0
Camarines Sur	74	15,439,284	1,099,000	14.0

Catanduanes	12	3,311,359	175,000	18.9
Albay	48	36,207,509	809,000	44.8
Sorsogon	42	7,973,278	501,000	15.9
Masbate	38	8,655,874	585,000	14.8

Aklan	44	7,883,799	325,000	24.3
Capiz	81	21,650,750	492,000	44.0
Antique	36	7,525,663	345,000	21.8
Iloilo	82	19,402,367	1,434,000	13.5
Negros Occ.	86	34,980,171	1,930,000	18.1

Cebu	112	24,543,984	2,092,000	11.7
Negros Or.	46	39,902,834	819,000	48.7
Bohol	68	17,482,282	806,000	21.7
Siquijor	7	1,133,326	70,000	16.2
North Samar	30	6,721,196	379,000	17.7
West Samar	84	21,932,574	501,000	43.8
East Samar	66	13,311,149	321,000	41.5
Leyte	180	36,289,444	1,383,000	27.9
South Leyte	44	10,335,260	296,000	34.9

Biliran	23	4,533,000		
Zamboanga Norte	27	8,306,003	558,000	14.9
Zamboanga Sur	45	11,485,000	1,184,000	9.7
Sulu	27	4,635,000	360,000	12.9
Tawi-Tawi	13	3,779,000	195,000	19.4
Basilan	12	3,270,000	201,000	16.3

Surigao Norte	17	19,225,671	363,000	53.0
Camiguin	9	1,940,000	57,000	54.0
Misamis Occ.	33	6,689,244	386,000	17.3
Misamis Or.	35	10,816,946	690,000	15.7
Agusan Norte	27	6,701,228	365,000	18.4
Agusan Sur	33	5,858,237	265,000	22.1
Bukidnon	32	8,470,000	632,000	13.4

Surigao Sur	30	5,615,977	378,000	14.9
So. Cotabato	27	8,991,071	770,000	11.7
Davao del Sur	34	10,018,518	1,134,000	8.8
Davao Norte	38	7,200,334	725,000	9.9
Davao Or.	26	5,160,427	340,000	15.2
Lanao Norte	57	7,157,500	461,000	15.5
Lanao Sur	21	6,819,094	405,000	16.8
Nor. Cotabato	30	6,760,020	565,000	12.0
Maguindanao	25	6,599,960	536,000	12.3
Sultan Kudarat	8	3,379,999	304,000	11.1

Metro Manila	216	65,286,627	5,926,000	11.0

Sources: USAID & Philippine Yearbook 1988. Note: there have been some changes in provinces since 1980.

AGENCY FOR INTERNATIONAL DEVELOPMENT PROJECT DATA SHEET	1. TRANSACTION CODE <input type="checkbox"/> A = Add <input type="checkbox"/> C = Change <input type="checkbox"/> D = Delete	Amendment Number _____ DOCUMENT CODE 3
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2. COUNTRY/ENTITY Philippines	9. PROJECT NUMBER 492-0343
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4. BUREAU/OFFICE ASIA	5. PROJECT TITLE (maximum 40 characters) Project Design Project
--------------------------	--

6. PROJECT ASSISTANCE COMPLETION DATE (PACD) MM DD YY 12 31 84	7. ESTIMATED DATE OF OBLIGATION (Under "B." below, enter 1, 2, 3, or 4) A. Initial FY 85 B. Quarter 2 C. Final FY 81
--	--

8. COSTS (\$000 OR EQUIVALENT \$1 =)						
A. FUNDING SOURCE	FIRST FY			LIFE OF PROJECT		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
AID Appropriated Total						
(Grant)	(600)	(1,400)	(2,000)	(1,300)	(2,700)	(5,000)
(Loan)	()	()	()	()	()	()
Other U.S.						
1.						
2.						
Host Country	400		400		1,000	1,000
Other Donor(s)						
TOTALS	1,000	1,400	2,400	1,300		

9. SCHEDULE OF AID FUNDING (\$000)									
A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE		D. OBLIGATIONS TO DATE		E. AMOUNT APPROVED THIS ACTION		F. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1) ESF	291	200				2,000		5,000	
(2)									
(3)									
(4)									
TOTALS						2,000		5,000	

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each) 210 150 240 160 851	11. SECONDARY PURPOSE CODE
--	----------------------------

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)					
A. Code	R/AG	ENV	INTR	LAB	
B. Amount	200	300	1500	1000	

13. PROJECT PURPOSE (maximum 480 characters)

To design development projects/activities which will be financed with Economic Support Funds.

14. SCHEDULED EVALUATIONS Interim MM YY MM YY Final MM YY 01 81 01 82 01 85	15. SOURCE/ORIGIN OF GOODS AND SERVICES <input checked="" type="checkbox"/> 000 <input type="checkbox"/> 941 <input checked="" type="checkbox"/> Local <input type="checkbox"/> Other (Specify) _____
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16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a _____ page PP Amendment.)

17. APPROVED BY	Signature: <i>Anthony M. Schwarzwalder</i> Anthony M. Schwarzwalder Title: Director	18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION Date Signed: MM DD YY 06 16 80
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PROJECT DATA SHEET

1. TRANSACTION CODE

A = Add
 C = Change
 D = Delete

Amendment Number

DOCUMENT CODE

3

2. COUNTRY/ENTITY

Philippines

3. PROJECT NUMBER

492-0365

4. BUREAU/OFFICE

ASIA

04

5. PROJECT TITLE (maximum 40 characters)

Markets

6. PROJECT ASSISTANCE COMPLETION DATE (PACD)

MM DD YY
09 30 88

7. ESTIMATED DATE OF OBLIGATION

(Under "B." below, enter 1, 2, 3, or 4)

A. Initial FY 82

B. Quarter 4

C. Final FY 84

8. COSTS (\$000 OR EQUIVALENT \$1 =)

A. FUNDING SOURCE	FIRST FY			LIFE OF PROJECT		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
AID Appropriated Total						
(Grant)	(200)	(3,800)	(4,000)	(800)	(20,200)	(21,000)
(Loan)	()	()	()	()	()	()
Other U.S.						
1.						
2.						
Host Country						
Other Donor(s)						
TOTALS	200	3,800	4,000	800	20,200	21,000

9. SCHEDULE OF AID FUNDING (\$000)

A. APPRO- PRIATION	B. PRMRY PURPOSE CODE	C. PRIMARY TECH. CODE		D. OBLIGATIONS TO DATE		E. AMOUNT APPROVED THIS ACTION		F. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1) ESF	130	120				21,000		21,000	
(2)									
(3)									
(4)									
TOTALS						21,000		21,000	

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)

250 510 270

11. SECONDARY PURPOSE CODE

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code BR BU
B. Amount

13. PROJECT PURPOSE (maximum 480 characters)

To provide ESF funds resulting from the Amended Military Bases Agreement of 1947 to assist the GOP to improve market operations and construct/rehabilitate such facilities throughout the Philippines.

14. SCHEDULED EVALUATIONS

Interim MM YY MM YY Final MM YY

15. SOURCE/ORIGIN OF GOODS AND SERVICES

000 941 Local Other (Specify) 935

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a _____ page PP Amendment.)

17. APPROVED BY

Signature Anthony M. Schwarzwald
Title Director, USAID/Philippines

Date Signed MM DD YY
07 27 84

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W D MENTS, DATE OF DISTRIB

MM DD YY

AGENCY FOR INTERNATIONAL DEVELOPMENT PROJECT DATA SHEET	1. TRANSACTION CODE <input type="checkbox"/> A = Add <input type="checkbox"/> C = Change <input type="checkbox"/> D = Delete <input checked="" type="checkbox"/> A	Amendment Number - 0 -	DOCUMENT CODE 3
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2. COUNTRY/ENTITY Philippines	3. PROJECT NUMBER PP-2-0361
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4. BUREAU/OFFICE ASLA	5. PROJECT TITLE (maximum 40 characters) Municipal Development Fund
--------------------------	--

6. PROJECT ASSISTANCE COMPLETION DATE (PACD) MM DD YY 12 30 88	7. ESTIMATED DATE OF OBLIGATION (Under 'B.' below, enter 1, 2, 3, or 4) A. Initial FY 81 B. Quarter # 2 C. Final FY 84
--	--

8. COSTS (\$000 OR EQUIVALENT \$1 =)						
A. FUNDING SOURCE	FIRST FY 81			LIFE OF PROJECT		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
AID Appropriated Total						
(Grant) ESF	(4,000)	(18,000)	(22,000)	(15,000)	(55,000)	(70,000)
(Loan)	()	()	()	()	()	()
Other 1.						
U.S. 2.						
Host Country		5,000	5,000		20,000	20,000
Other Donor(s)						
TOTALS	4,000	23,000	27,000	15,000	75,000	90,000

9. SCHEDULE OF AID FUNDING (\$000)									
A. APPROPRIATION/PURPOSE	B. PRIMARY CODE	C. PRIMARY TECH. CODE		D. OBLIGATIONS TO DATE		E. AMOUNT APPROVED THIS ACTION		F. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1) ESF	270	100		0		11,000		35,000	
(2) ESF	720	800		0		11,000		35,000	
(3)									
(4)									
TOTALS				0		22,000		70,000	

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each) 150 120 110 820 860	11. SECONDARY PURPOSE CODE
--	----------------------------

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each) A. Code LAB PART TECH	B. Amount
--	-----------

13. PROJECT PURPOSE (maximum 480 characters)

To provide ESF funds resulting from the Amended Military Bases Agreement of 1947 to enhance the capabilities of selected municipalities and cities, with emphasis on those most affected by the U.S. military facilities, to manage resources in carrying out development activities responsive to locally established priorities.

14. SCHEDULED EVALUATIONS Interim MM YY 09 83 Final MM YY 01 89	15. SOURCE/ORIGIN OF GOODS AND SERVICES <input checked="" type="checkbox"/> 000 <input type="checkbox"/> 941 <input checked="" type="checkbox"/> Local <input type="checkbox"/> Other (Specify)
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16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a _____ page PP Amendment.)

N. A.

17. APPROVED BY	Signature: <i>Anthony M. Schwarzwald</i> Anthony M. Schwarzwald Title: Director	Date Signed: MM DD YY 10/5/89
		18. DATE DOCUMENT RECEIVED BY AID/PP, OR FOR AID/PP DOCUMENTS, DATE OF DISTRIBUTION MM DD YY 10/6/01/81

AGENCY FOR INTERNATIONAL DEVELOPMENT PROJECT DATA SHEET		1. TRANSACTION CODE <input type="checkbox"/> A = Add <input type="checkbox"/> C = Change <input checked="" type="checkbox"/> D = Delete		Amendment Number _____		DOCUMENT CODE 3			
COUNTRY/ENTITY Philippines		2. PROJECT NUMBER 492-0374		3. PROJECT TITLE (maximum 40 characters) Regional Development Fund					
BUREAU/OFFICE ASIA		7. ESTIMATED DATE OF OBLIGATION (Under "B" below, enter 1, 2, 3, or 4) A. Initial FY 81 B. Quarter 2 C. Final FY 84							
PROJECT ASSISTANCE COMPLETION DATE (PACD) MM DD YY 1 2 3 1 8 7		3. COSTS (\$000 OR EQUIVALENT \$) =							
A. FUNDING SOURCE		FIRST FY			LIFE OF PROJECT				
		B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total		
AID Appropriated Total									
(Grant)		1,500	18,500	20,000	3,000	42,000	45,000		
(Loan)									
Other _____									
U.S. _____									
Host Country _____									
Other Donor(s) _____									
TOTALS		1,500	18,500	20,000	3,000	42,000	45,000		
9. SCHEDULE OF AID FUNDING (\$000)									
A. APPROXIMATE RATION/PURPOSE	B. PRIMARY CODE	C. PRIMARY TECH. CODE 1. Grant / 2. Loan	D. OBLIGATIONS TO DATE		E. AMOUNT APPROVED THIS ACTION		F. LIFE OF PROJECT		
			1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan	
1) ESF	280	100	-		45,000		45,000		
2)									
3)									
4)									
TOTALS			-		45,000		45,000		
10. SECONDARY TECHNICAL CODES (maximum 5 codes of 3 positions each)							11. SECONDARY PURPOSE CO		
120		130		140		820			
2. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)									
A. Code		BR							
B. Amount									
3. PROJECT PURPOSE (maximum 480 characters)									
<p>To provide ESF funds resulting from the Amended Military Bases Agreement of 1947 to assist the GOP with ameliorating the poor socio-economic conditions of squatter communities in the reverted baselands and along the perimeters of U.S. military facilities in the Philippines and with enhancing the socio-economic development of the wider impact area of such facilities through high priority, growth-related infrastructure projects.</p>									
4. SCHEDULED EVALUATIONS					13. SOURCE/ORIGIN OF GOODS AND SERVICES				
Interim	MM YY	MM YY	MM YY	Final	MM YY				
	1 2 8 4				1 2 8 7	<input checked="" type="checkbox"/> 000	<input type="checkbox"/> 941	<input checked="" type="checkbox"/> Local	<input type="checkbox"/> Other (Specify) _____
5. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a _____ page PP Amendment)									
17. APPROVED BY					Signature <i>Anthony M. Schwarzwald</i> Anthony M. Schwarzwald		14. DATE DOCUMENT RECEIVED IN AID/W. OR FOR AID/W. DOCUMENTS, DATE OF DISTRIBUTION		
					Title Director, USAID/Philippines				
					Date Signed MM DD YY 06 23 84		MM DD YY 07 07 82		

AGENCY FOR INTERNATIONAL DEVELOPMENT
PROJECT DATA SHEET

1. TRANSACTION CODE
 A = Add
 C = Change
 D = Delete

Amendment Number 2

DOCUMENT CODE 3

2. COUNTRY/ENTITY Philippines

3. PROJECT NUMBER 492-0374

4. BUREAU/OFFICE Asia 04

5. PROJECT TITLE (maximum 40 characters) Regional Development Fund

6. PROJECT ASSISTANCE COMPLETION DATE (PACD)
 MM DD YY
1/2/3 | 1/3/1 | 8/8

7. ESTIMATED DATE OF OBLIGATION (Under "B" below, enter 1, 2, 3, or 4)
 A. Initial FY 8|2 B. Quarter C. Final FY 8|6

8. COSTS (\$000 OR EQUIVALENT \$1 =)

A. FUNDING SOURCE	FIRST FY <u>82</u>			LIFE OF PROJECT		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
AID Appropriated Total		20,000	20,000	500	189,500	190,000
(Grant)	()	(20,000)	(20,000)	(500)	(189,500)	(190,000)
(Loan)	()	()	()	()	()	()
Other U.S.						
1. Host Country		2,000	2,000	-	19,000	19,000
2. Other Donor(s)						
TOTALS		22,000	22,000	500	208,500	209,000

9. SCHEDULE OF AID FUNDING (\$000)

A. APPROPRIATION PURPOSE	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH CODE		D. OBLIGATIONS TO DATE		E. AMOUNT APPROVED THIS ACTION		F. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1) E.S.F.	280	100		85,000		105,000		190,000	
(2)									
(3)									
(4)									
TOTALS				85,000		105,000		190,000	

10. SECONDARY TECHNICAL CODES (maximum 5 codes of 3 positions each)
120 | 130 | 140 | 820

11. SECONDARY PURPOSE CODE

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)
 A. Code
 B. Amount

13. PROJECT PURPOSE (maximum 480 characters)

To improve socio-economic conditions in the Philippines through the provision of priority public infrastructure projects including associated technical assistance.

14. SCHEDULED EVALUATIONS
 Interim MM YY 0/9/8 | 4 | MM YY 0/9/8 | 6 Final MM YY 0/9/8 | 8

15. SOURCE/ORIGIN OF GOODS AND SERVICES
 000 941 Local Other (Specify)

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a _____ page PP Amendment.)

Provides additional funding for local government capital assistance activities with emphasis on areas near U.S. military facilities, nationwide school facilities, and provides option to fund priority disaster area assistance efforts.

17. APPROVED BY

Signature: Frederick W. Schwach

Title: Director, USAID/Philippines

Date Signed MM DD YY 0/4/2 | 3 | 8/5

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION
 MM DD YY

AGENCY FOR INTERNATIONAL DEVELOPMENT PROJECT DATA SHEET		1. TRANSACTION CODE <input type="checkbox"/> A = Add <input checked="" type="checkbox"/> C = Change <input type="checkbox"/> D = Delete	Amendment Number 4	DOCUMENT CODE 3
2. COUNTRY/ENTITY PHILIPPINES		3. PROJECT NUMBER 492-0374		
4. BUREAU/OFFICE ASIA AND NEAR EAST 04		5. PROJECT TITLE (maximum 40 characters) REGIONAL DEVELOPMENT FUND		
6. PROJECT ASSISTANCE COMPLETION DATE (PACD) MM DD YY 019 310 910		7. ESTIMATED DATE OF OBLIGATION (Under 'B' below, enter 1, 2, 3, or 4) A. Initial FY 82 B. Quarter 4 C. Final FY 90		

8. COSTS (\$000 OR EQUIVALENT \$1 =)						
A. FUNDING SOURCE	FIRST FY 82			LIFE OF PROJECT		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
AID Appropriated Total		20,000	20,000	500	189,500	190,000
(Grant)	()	(20,000)	(20,000)	(500)	(189,500)	(190,000)
(Loan)	()	()	()	()	()	()
Other: 1.						
U.S. 2.						
Host Country		2,000	2,000		8,333	8,333
Other Donor(s)						
TOTALS		22,000	22,000	500	197,833	198,333

9. SCHEDULE OF AID FUNDING (\$000)									
A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH CODE		D. OBLIGATIONS TO DATE		E. AMOUNT APPROVED THIS ACTION		F. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1)ESF	280	100		116,925		24,000		170,837	
(2)ARDN	200	100				18,476		18,476	
(3)HE	500	200				687		687	
(4)									
TOTALS				116,925		43,163		190,000	

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)						11. SECONDARY PURPOSE CODE	
120	130	140	820				
12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)							
A. Code							
B. Amount							

13. PROJECT PURPOSE (maximum 480 characters):

To contribute to socio-economic development through the support of high priority, growth-related infrastructure projects.

14. SCHEDULED EVALUATIONS				15. SOURCE/ORIGIN OF GOODS AND SERVICES				
Interim	MM YY 0 9 8 4	MM YY 0 4 8 9	Final	MM YY	<input checked="" type="checkbox"/> 000	<input type="checkbox"/> 941	<input checked="" type="checkbox"/> Local	<input type="checkbox"/> Other (Specify)

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a _____ page PP Amendment.)

This amendment provides for the inclusion of Development Assistance funds from the Agriculture, Rural Development and Nutrition and Health Functional Accounts.

17. APPROVED BY	Signature <i>Malcolm Butler</i> MALCOLM BUTLER	Date Signed MM DD YY 0 8 1 1 8 8	18. DATE DOCUMENT RECEIVED IN AID/AV, OR FOR AID/AV DOCUMENTS, DATE OF DISTRIBUTION MM DD YY
	Title Director, USAID/Philippines		

PROJECT DATA SHEET

1. TRANSACTION CODE

A = Add
 C = Change
 D = Delete

Amendment Number

5

DOCUMENT CODE

3

2. COUNTRY/ENTITY
 Philippines

3. PROJECT NUMBER
 492-0374

4. BUREAU/OFFICE
 Asia and Near East 04

5. PROJECT TITLE (maximum 40 characters)
 Regional Development Fund

6. PROJECT ASSISTANCE COMPLETION DATE (PACD)

MM DD YY
 09 30 90

7. ESTIMATED DATE OF OBLIGATION
 (Under 'B' below, enter 1, 2, 3, or 4)

A. Initial FY 82 B. Quarter C. Final FY 89

8. COSTS (\$000 OR EQUIVALENT \$1 =)

A. FUNDING SOURCE	FIRST FY 82			LIFE OF PROJECT		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
AID Appropriated Total		20,000	20,000	500	189,500	190,000
(Grant)	()	(20,000)	(20,000)	(500)	(189,500)	(190,000)
(Loan)	()	()	()	()	()	()
Other U.S. 1.						
2.						
Host Country		2,000	2,000		8,334	8,334
Other Donor(s)						
TOTALS		22,000	22,000	500	197,834	198,334

9. SCHEDULE OF AID FUNDING (\$000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE		D. OBLIGATIONS TO DATE		E. AMOUNT APPROVED THIS ACTION		F. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1) ESF	280	100		116,925				168,837	
(2) ARDN	200	100				20,476		20,476	
(3) HE	500	200				687		687	
(4)									
TOTALS				116,925		21,163		190,000	

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)

120 130 140 820

11. SECONDARY PURPOSE CODE

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code
 B. Amount

13. PROJECT PURPOSE (maximum 480 characters)

To contribute to socio-economic development through the support of high priority, growth-related infrastructure projects.

14. SCHEDULED EVALUATIONS

Interim MM YY MM YY Final MM YY
 09 84 04 89

15. SOURCE/ORIGIN OF GOODS AND SERVICES

000 941 Local Other (Specify)

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a _____ page PP Amendment.)

This amendment provides for the inclusion of additional Development Assistance funds from the Agriculture, Rural Development and Nutrition Account.

17. APPROVED BY

Signature
 MALCOLM BUTLER *Malcolm Butler*
 Title
 Director, USAID/Philippines

Date Signed
 MM DD YY
 08 31 88

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION

MM DD YY

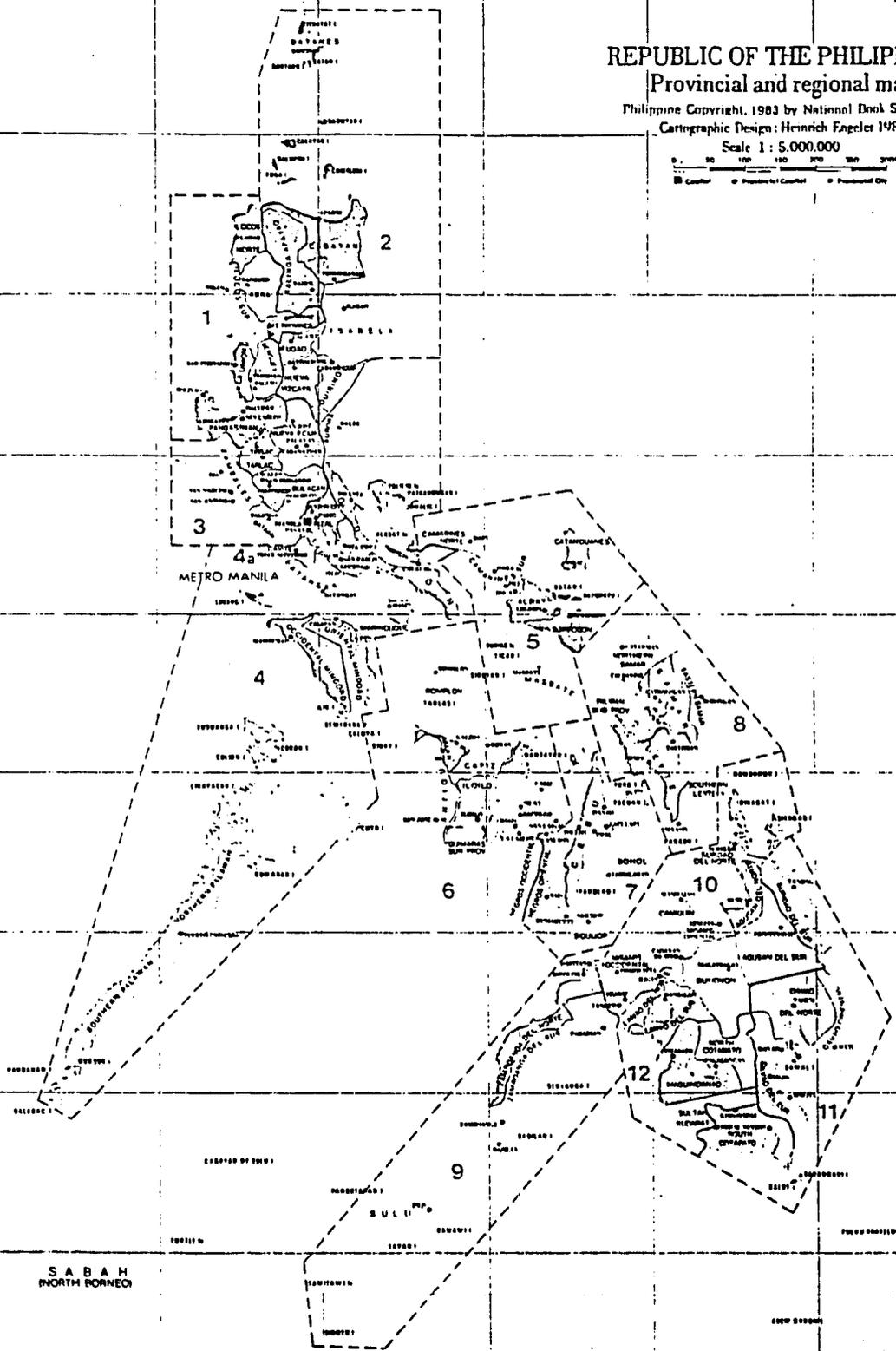
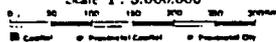
REPUBLIC OF THE PHILIPPINES

Provincial and regional map

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Scale 1 : 5,000,000



SABAH
(NORTH BORNEO)

APPENDIX 3

INNOVATIVE BUREAUCRATIC SYSTEMS, DONORS, AND RECIPIENTS: THE ROLE OF THE ECONOMIC SUPPORT FUND SECRETARIAT

David I. Steinberg

Economic development donors and recipients are often faced with a dilemma: how to implement effectively major projects or programs that are additional to the normal workload of the host government ministry or agency. Such programs almost always involve seemingly arcane donor regulations on use of funds and special accounts, procurement regulations, contracting, and other desiderata with which the usual bureaucracy is not familiar, and which would stretch their already limited capacity. Inherent in such a circumstance is the dilemma that if the organization were strong enough to handle such new tasks, it is unlikely in the first instance that it would need foreign assistance.

Sometimes the formation of a new organization or unit seems the only feasible way to provide an effective management entity not only from the perspective of the donor, which normally is reluctant to become too engaged in daily administrative detail, but also from that of the recipient, especially in governments where inter-ministerial or even departmental coordination is virtually impossible without massive changes in the administrative culture.

It has become increasingly common for donors and recipients to agree to set up bureaucratic entities to handle major projects or programs. The World Bank and the Asian Development Bank usually form "project management offices" inside line ministries or planning agencies. (There are now some 100 such organizations reporting to the Office of the President of the Philippines alone.) One such organization within the Department of Public Works & Highways is PREMIUMED (Program for Essential Municipal Infrastructure, Utilities, Maintenance and Engineering Development), an organization funded by the World Bank with many responsibilities similar to those of the Secretariat. The Secretariat itself supported (with AID funds) such offices at one time at the subproject, provincial level with total honoraria to those involved of more than P5.6 million. Since donor projects are often intersectoral, involving more than one ministry or geographic administrative region, such an organization may be set up either inside or outside such ministries. The Accelerated

Rural Development (ARD) program in Thailand funded by AID is an example of an autonomous national organization. In the Philippines, the AID-supported Bicol Program Office was another such special, localized organization. Perhaps the most clear example, one that is independent of any single ministry but depends on many and is now national in scope, is the Economic Support Fund Secretariat (ESFS).

The impetus for the Secretariat came from USAID, which was faced with a major problem. It was anticipating a 25 percent cut in its American staff over several years at the same time that it was ordered to absorb large increments to its program budget under the new ESF agreement. Further, this program was designated to be one in which the funds were to be quick disbursing, and were to be used in a variety of fields (thus across the line ministries) in the vicinity of the U.S. bases. At that time, there was no single Philippine entity that could handle the program without additional support (and none had knowledge of AID regulations). USAID suggested the formation of a secretariat, and it was only after a hiatus that the Philippine government designated the Ministry of Human Settlements as its sponsor, and its Minister and First Lady as the Chair of the Ministerial Coordinating Council, which provided oversight to the program. As one demonstrating government concern in a tangible manner at the local level, it was soon apparent that the program had important political potential for the administering organization and its sponsors.

The creation of this entity thus seemed to solve a fundamental problem for both donor and recipient: how to ensure relatively quick expenditures of funds with a minimum of internal administrative stress. Yet this choice, which is one of innumerable examples of similar bureaucratic innovations, was in fact a decision that had important shorter and longer-term implications, some of which have become apparent as the Secretariat has matured, and as donor assistance increases in the Philippines.

The essential trade-off is between the short term gains inherent in founding a highly visible (thus bureaucratically desirable) entity that can achieve its project objectives with a minimum of local red tape, and yet is designed to meet donor requirements for review, approval, procurement, audit, and oversight. It is, however, one that by its very initial success vitiates the effectiveness of the line ministries, which may atrophy. It both replaces some ministerial functions and may also steal away many of their better personnel. These new

organizations often pay premium wages (those from PREMIUMED are 25 percent above civil service salaries, those in the Office of the President may pay up to 50 percent more), and are for a relatively short term attractive employers.

Short-term effectiveness, however, is often replaced over time by more ritualized functions, and a sense of drift as the early enthusiasm of the project is tempered by the inevitable bureaucratic compromises and coordinations that must be made. These organizations often then suffer from a moderating of political interest at the top of the political hierarchy as newer (and perhaps financially more desirable) priorities achieve prominence and replace them in attention, key supporters change, and as societal needs alter. The organization, bound essentially by its source of funds perhaps more than by a defined role, then searches for a future niche.

Thus for relatively short term programmatic gains long term bureaucratic effectiveness is often sacrificed. So stated, the decision to found such organizations seems starkly questionable. In fact, the dilemma is usually more subtle, more slowly perceived, and even more slowly felt. It is also apparent that longer term concerns will almost inevitably take lower precedence over shorter-term exigencies.

This problem has not gone unnoticed in AID, and even in the Philippines. As one official document, drawing lessons from the Philippines Provincial Development Assistance Project (PDAP), noted:

Special authorities or organizational structures created outside of permanent organizations specifically for flexibility and convenience of implementation of a particular project provide only short term solutions to long term needs of institution building. Development projects should be integrated, to the maximum extent possible, into existing systems from the start.

Development assistance projects whose objective is to strengthen localities so that they can on their own identify, initiate, and implement development programs must contain provision for a phased withdrawal of the project control agency.

(Project Paper. Philippines Regional Development Fund Project, Appendix D. August 1982)

The Secretariat

The Secretariat is now faced with a problem of identity, as its own senior staff defined one of its difficulties. It is now one of a large number of extra-line organizations with overlapping functions in the Philippines, where once it was unique, and as donor assistance expands, it will be further vitiated unless it more carefully defines its role. Its staff are temporary, and their salaries have dropped relative to government wages and now are at par with the bureaucracy, but the Secretariat staff share none of their benefits. Coordination with central bureaucratic agencies is tedious and slow. Its function is to expend funds as prudently as possible, but its more basic objective seems, to many of the staff, obscure. The Secretariat, in AID parlance, has defined carefully its outputs or targets, but has now begun to recognize that it needs a goal and a purpose.

There are some in the Secretariat who see its future not simply as a funding organization, but as one that implements as well. This would give a sense of permanency to the structure, and staff hope it might attract other foreign donor support. But this "dream," as it has been described, if realized would place it in more intense and direct competition with other organizations whose capacities are far greater, such as the Department of Public Works and Highways. It would also run counter to the explicitly articulated development stance of the government of the Philippines: increased decentralization and devolution of authority of authority and action to the periphery.

The Secretariat, on its own a year ago, began to consider its long-term strategic plans and to speculate on its future. The process, however, has essentially just begun. This evaluation could help define some of the issues for both Secretariat and USAID consideration; it offers suggestions for the future.

The Future of the Secretariat

This discussion of future possibilities is based on the assumptions that over the medium term (until 1992 at the shortest) Economic Support Funds will continue to be provided to the Philippines, and that it is to the political advantage of both nations that a substantial portion, if a minority, of those

funds be in project form. The USAID Interim Strategy Concept Paper [9-23-88] called for an increase in the project component of non-base ESF. Whether or not the bases are retained, the United States will most likely continue to provide substantial economic assistance to the Philippines, and thus even without base considerations assist in some of the projected activities outlined below. In fact, the projects carried out under the ESF program could equally be assisted under the Development Assistance account, should that be deemed desirable. These funds are already merged in support to a variety of rural infrastructure subprojects, and US policy guidelines establish that ESF projects should be considered under criteria similar to those of development assistance whenever possible.

As the negotiations for the bases continue within the same general period as preparations for the Philippine elections of 1992 (and especially should a plebiscite on those bases be called), then visible evidence of government and United States concern for rural areas may well be considered in the interests of all parties. Thus the Secretariat's program functions might well continue for some time. Even if ESF funding were to cease immediately, the pipeline for unexpended funds and incomplete projects would take some years to liquidate.

The history of a major portion of the USAID Philippine program over a generation has been the development of provincial and rural areas, and the strengthening of their capacity to deal with development and change. Although decentralization during much of that period was touted to be a goal of the government, the nature of the Marcos administration, both its formal and informal networks, never allowed the possibility of attaining that objective, which was during that time more theater than reality. The division of the nation into regional "planning" units was to further such decentralization; in fact, it created a new, and at that time extraneous, bureaucratic layer.

The Aquino administration seems committed to this goal, which is now incorporated into the Philippine Constitution, and is presently being implemented through administrative decrees as well as through a series of legislative measures now under consideration. Decentralization is carefully articulated in the Medium-Term Philippine Development Plan, 1987-1992, which states:

The role and structure of government shall be guided by the key organizational principles of decentralization, checks and balances, and minimal government intervention in economic activities, as well as by the need to provide for necessary infrastructure facilities, and basic social services. [p. 38]

The USAID strategy also calls for support for this effort, as well as improving the livelihood of the majority of the population who continue to live in rural areas. There is thus a confluence of priorities into which the goal and supporting programs of the Secretariat might well be structured.

This is not to deny that there are substantial legislative roadblocks and other problems connected with local autonomy and decentralization. The Legislature seems reluctant to relinquish its pivotal patronage role to local institutions at any level. Congressmen are prohibited from being on Regional Development Councils, and thus must rely on the use of their line-item budget review to affirm their pre-eminence and their role as dispenser of patronage and projects. Comments from Philippine leaders indicate that although the Senate may well pass such legislation, the Lower House may substantially modify the proposed laws. Line government departments, such as education, maintain strong centralizing authorities and predilections. Yet decentralization, even federalism, has been described as inevitable over time. Two autonomous regional authorities (one in Northern Luzon, and one in Mindanao) are in the planning stages.

USAID and the Government of the Philippines might wish to consider both shorter and longer term modifications to their joint program: the eventual elimination of the anomaly of their continuous programming at the center even if it is meant to build up the periphery, together with the more immediate actions suggested in the body of this report. This goal might be furthered through moving the programming process to the provincial areas over time. One step in that direction could be a subtle change in the activities (as well as in internal staffing and organizational patterns) of the Secretariat.

The Secretariat is in fact something of a linguistic anomaly, for it has few of the functions such a body usually possess. It is rather more of a Program Management Office, and might be so designated, for that title implies in the Philippines a limited life. The Secretariat could shift to a different sense

of service to provincial areas. Instead of simply completing provincial infrastructure projects, the goal of the Secretariat might be stated to be the development of decentralized local government capacity to improve the lives and livelihood of its citizens in defined ways, and its purpose might be to build up local government capacity to identify, design, contract, manage, and maintain rural small-scale infrastructure and other activities (see Report, Section VIII). It might also be prudent to institute a "sunset" provision that would limit the life of the Secretariat (subject to review after approximately five years) to seven to nine years, assessing its continuing need in the light of the development of local capacities and the devolution of administrative and fiscal authority to the periphery.

The present program of the Secretariat does not meet two normal AID foreign assistance requirements (although under the ESF account these stipulations are less rigid). These are: sustainability and replicability. The important issue of maintenance is addressed elsewhere in this report (Appendix 6), but it is generally a responsibility of local government and a product of local capacity (even when funded by the center). In spite of agreements with local governments to the contrary, it is a major problem except in primary schools, where local PTA groups often provide minimum support. In the interests of quick disbursement, construction has been stressed; maintenance, which generally obligates less funds, has been sidestepped. Replicability has not been considered, for the capacities being built are at the center, physically away and emotionally removed from an understanding of local needs and local financial resources. Under an only modestly revised program but with newly articulated goals and purposes, both elements might be included and even stressed.

Should the Secretariat disappear tomorrow, one might have thought that its passing would be mourned only by local governments, to which it has been useful. This seemed to be its natural bureaucratic constituency, one that is lacking in the central government. But in fact this seems not to be the case. There is a recognition of the need for the Secretariat only insofar as it retains the funds. Local technical assistance is effectively in the hands of USAID engineers, but major local government units feel that they have the trained capacity to manage many of the Secretariat's functions. USAID has in the past agreed (see Report, Section VI, B.2).

The central administration sees little usefulness in the Secretariat. Thus, NEDA has already (in 1986) attempted to take over its functions, and if that proved impracticable, its direct supervision. It is likely that the Secretariat has been protected from more bureaucratic sniping by both its foreign support (without which it would not exist) and through Philippine bureaucratic inadvertence: the Secretariat salaries are paid directly by USAID and not through the Philippine treasury.

There is a further dilemma. In major structures, such as markets, the "change orders" in design (among a variety of other factors discussed in Appendix 8) have markedly slowed completion of these subprojects, and the Secretariat has indicated an interest in moving to standard designs, in addition to the standard procedures both in fact necessary for the effective functioning of a large and geographically diverse program by a relatively small centralized professional staff. This itself creates an inherent problem, as the previously quoted Project Paper indicated:

Local development projects currently being designed for implementation will have to resist pressure toward uniform procedures in order to retain responsiveness to locally established priorities.

[Ibid.]

There is then often tension between the need to be responsive to localized needs, and to standardize for administrative efficiency. Thus cities and municipalities charge that the markets are overdesigned, which in many cases seems true. If the Secretariat could redefine its role as "action" training and developing the capacity of local governments through construction (and related contract management activities) of subprojects, it would play a critical role in the Philippine planning process. Explicitly defining a non-or less-competitive bureaucratic role would not be simple, but it might be accomplished, at the same time using the present construction program as a means to enable local government to develop the practical skills associated with contract management, by shifting the concept to a practical teaching function. Although the pitfalls are many and the numerous private agendas often subtle, in this era is the best chance to achieve significant decentralization, to which the Secretariat and its program might contribute.

This long term approach would allow the development of greater local private sector contracting and consulting capacities, in itself a desirable activity if contracting were done in the provinces rather than centralized in Manila. There

are, of course, dangers in this approach, one of which is associated with potential local corruption (see Appendix 10), but a solid base of local capacity has been built up in many regional centers through previous AID programs, and more recently through World Bank activities. It should be used.

As the responsible officials consider this approach, an immediate set of steps might be taken to begin to provide local administrations with more responsibility. These steps are outlined in the main body of the report. But the quick amelioration of the problems of the Secretariat, should the team's suggestions be followed in whole or in part, should not obscure the fact that there are longer range needs and longer range potential in more fundamental shifts in the nature of the functions and objectives of the Secretariat and the ESF program.

APPENDIX 4

LOCAL GOVERNMENT UNITS

Lemuel M. Miravalles

The biggest issue facing local government units (LGUs) is decentralization and local autonomy. Decentralization cements the national government's avowed goal of democratizing power. It is an essential condition for regional and countrywide development. The general philosophy underlying decentralization is that the local government units, being closer to the situation, are in a better position to identify their constituency's needs, specifically in ordering priorities and determining allocations. Moreover, faster and more effective delivery of goods and services is more assured if the decision-making process is localized.

The concepts of decentralization and local autonomy have always been mentioned together and sometimes even used interchangeably. Although there is no general agreement on the strict meaning of the terms, the concept of local autonomy is subsumed under the general concept of decentralization.

Decentralization is essentially a state or condition in public administration which there is dispersal of power from the central government to local government units. It involves the delegation of power and authority to lower levels of government in order to formulate and implement more responsive programs and projects for the community.

Decentralization and local autonomy have three major elements:

- 1) the expansion of powers delegated from the national government to the regional, provincial, city, and municipal governments;
- 2) an increase in the financial resources available to the local executives; and
- 3) the removal of controls by the central government on the management of local resources.

The policy of decentralization and the provision of autonomy to local government units are, of course, not new. Since 1946, various political leaders have preached the need for local autonomy. The Local Autonomy Law and the Decentralization Act were attempts by Congress to devolve powers from the central government to local governments. The 1973 Constitution laid down the principle of local autonomy based on self-reliance, and authorized local government units to create their own sources of revenues subject to statutory limitations.

Several attempts in the past at administrative autonomy were made, but always the central government jealously retained a great degree of control and supervision over projects and activities. Political will was lacking on the part of the Executive Branch and Congress to implement this policy.

The 1983 Local Government Code

The existing Local Government Code (LGC) passed in February 1983 declares local government autonomy as the policy of the State. It states (Sec. 2, Chapter 1):

" The State shall guarantee and promote the autonomy of local government units to ensure their fullest development as self-reliant communities and make them more effective partners in the pursuit of national development and progress. To this end, the State shall constantly find and effectuate ways of enhancing their capabilities in discharging these responsibilities through a responsible and accountable local government structure instituted through a system of decentralization whereby local governments shall be given more powers, responsibilities and resources. "

In line with this policy of local autonomy, they are given general and corporate powers. According to Sec. 8, Chap. 2, "each local government unit shall have the power to create its own sources of revenue and to levy taxes, subject to such limitations as may be provided by law." As a corporation, every unit shall have the following powers: 1) to have continuous succession in its corporate name; 2) to sue and be sued; 3) to have and use a corporate seal; 4) to acquire and convey real or personal property; 5) to enter into contracts; and 6) to exercise such other powers as are granted to corporations, subject to limitations provided in the LGC and other laws.

Forms of Local Government

The 1983 Code has defined the territorial and political subdivisions of the country as the: 1) barangay, 2) municipality, 3) city and 4) province. These forms of units, their officials, and inter-relationships are further discussed below:

- 1) **Barangays.** The barangay is the basic political unit in the local government system. With a population of at least one thousand, it is the primary planning and implementing unit of government program, projects, and activities. It also serves as a form in which the views of the people in the community may be considered. Barangays are always subdivisions of municipalities or cities. There are approximately 42,000 barangays in the country. The officials of barangays are composed of: a) barangay captain, b) six elected barangay council (sangguniang barangay) members, c) kabataang (youth) barangay chairman, d) barangay secretary and e) barangay treasurer.
- 2) **Municipalities.** The municipality, consisting of a group of barangays, serves primarily as a general-purpose government for the coordination and delivery of basic, regular, and direct services within its jurisdiction. Municipalities have a population of at least 10,000 and an average estimated annual income of at least ₱200,000. They are subdivisions of provinces. There are about 1,480 municipalities in the country. Officials of the municipal government include: a) mayor, b) vice-mayor, c) municipal council (sangguniang bayan) members, d) municipal secretary, e) municipal treasurer, f) municipal assessor, g) municipal budget officer, and h) municipal planning and development coordinator.
- 3) **Cities.** A city covers more urbanized and developed communities, but is otherwise similar to a municipality. Cities also serve as a general-purpose government for the coordination and delivery of all basic, regular, and direct services within their jurisdiction. A city may either be a) component or b) highly urbanized depending on its population and annual income. A municipality may be converted into a component city if it has a population of not less than 100,000 and average regular income of at least ₱10 million. Just like the municipalities, component cities that are under the jurisdiction of the provincial government. There are currently 45 component cities in the Philippines.

Highly-Urbanized Cities - These are the cities which have achieved the twin requirements of a population of at least 150,000 and annual income of ₱30 million. They are completely independent of provinces. Their ordinances are enacted without supervision except by the Department of Local Government, acting on behalf of the President. There are 15 such cities in the country - Baguio, Angeles, Olongapo, Iloilo, Bacolod, Cebu, Cagayan de Oro, Butuan, Iligan, Zamboanga, Davao, Manila, Pasay, Calocan and Quezon.

Officials of City Governments include: 1) mayor, 2) vice-mayor, 3) sangguniang panglungsod (city council) members, 4) city secretary, 5) city treasurer, 6) city assessor, 7) city engineer, 8) city budget officer and 9) city planning and development coordinator. In highly urbanized cities, the additional officials include: 1) city legal officer, 2) city civil registrar, 3) city administrator, 4) city veterinarian, 5) city social services and development officer, 6) city general services officer and 7) city agriculturist.

4) **Provincer.** As a political unit comprised of a group of municipalities and component cities, the province serve as an effective mechanism in the development process. A province maybe created if it has a territory of at least 3,500 square kilometers, a population of at least 500,000 and an estimated annual income of at least ₱10 million. There are about 75 provinces in the country. Officials of the provincial government include: a) governor, b) vice-governor, c) members of the sangguniang panlalawigan (provincial council), d) provincial secretary, e) provincial treasurer, f) provincial assessor, g) provincial budget officer, h) provincial engineer, i) provincial agriculturist and j) provincial planning and development coordinator.

Inter-Governmental Relations

The President of the Philippines exercises general supervision, primarily through the Department of Local Government, over local governments to ensure that local affairs are administered according to law. General supervision includes the power to order an investigation into the conduct of local government officials whenever necessary.

The province, through the provincial governor, sees to it that every component city and municipality within its territorial jurisdiction acts within the scope of its assigned powers and functions.

The provincial council may, out of provincial funds, extend loans, grants or subsidies to its component cities and municipalities under such terms and conditions as it may impose. The city council of a component city may, out of city funds, likewise extend loans, grants or subsidies to the province to which it belongs.

The city and the municipality through their respective city mayor and municipal mayor have primary responsibility for general supervision over the government of every barangay within their territorial jurisdiction to ensure that it acts within its assigned powers and function.

The New Constitution of 1987

The new Constitution ratified in February 1987 emphatically supports the long-standing policy on decentralization and local autonomy. Section 25 of Article II reads: "The state shall ensure the autonomy of local government." Also, Section 2 of Article X states: "The territorial and political subdivisions shall enjoy local autonomy."

Article X contains general provisions pertinent to the powers of local governments (Sections 1-14) and the creation of autonomous regions in Muslim Mindanao and in the Cordilleras (Sections 15-21).

Administrative Decentralization

The New 1987 Constitution provides for administrative decentralization to strengthen the autonomy of local units that comprise the various regions. Section 13 of Article X authorizes local government units to group themselves, consolidate, or coordinate their efforts, services and resources for purposes commonly beneficial to them in accordance with law. Section 14 of the same Article authorizes the formation by the President of regional development formats or other similar bodies for purposes of administrative decentralization to strengthen the autonomy of the units in the regions and to accelerate their economic and social developments. The new Constitution also has widened the taxing powers of the local government units. Subject to such guidelines and limitations as Congress may provide but consistent with the basic policy of the local autonomy, each local government unit shall have the power to create its own sources of revenues and to levy taxes, fees, and charges which shall accrue exclusively to local governments (Section 5). And local government units shall have a just share, as determined by law, in the national taxes which shall be automatically released to them (Section 6).

Autonomous Regions

For the first time, the 1987 Constitution recognizes the autonomous regions in Muslim Mindanao and the Cordilleras. The provisions on the two autonomous regions emphasize that their creation shall be within the framework of the Constitution and the national sovereignty as well as territorial integrity of the Republic. Further, the 1987 Constitution expressly states that the President shall exercise general supervision over autonomous regions to ensure that laws are faithfully exercised.

The grant of autonomy to a region was not automatically established upon the ratification of the New Constitution. Congress must pass an organic act creating the autonomous region which, in turn, will become effective only when approved by the votes cast by the constituent units in a plebiscite called for that purpose. Only provinces, cities, and geographic areas voting favorably for autonomy will be included in the autonomous region. Therefore only areas which want autonomy will be part of an autonomous region. Once autonomy is granted, the autonomous region, in accordance with the organic act to be passed by Congress, will provide for the legislature of the region to enact measures that are specifically suited to the region's particular situation.

Organization of the Regional Development Council

Executive Order 308, signed by President Aquino on November 5, 1987, reorganized the existing Regional Development Councils to make them more effective instruments for regional development consistent with Section 14, Article X of the 1987 Constitution.

Composition. The RDC is now composed of the following: 1) All provincial Governors, and Mayors of chartered cities and of the regional center in each region; 2) The Regional Directors of agencies represented in the NEDA Board; 3) Representatives of the private sector and non-governmental organizations that shall not be more than one-fourth of the members of the fully constituted council.

Functions. The RDC shall be responsible for 1) approving the Regional Development Plan, the Multi-Year Regional Development Investment Program, and the Regional Annual Investment Program; 2) reviewing and endorsing to the national government the regional budget proposals of government agencies; and 3) ensuring the consistency of local development plans with the regional plan priorities through coordination with the Provincial Development Councils and the Municipal Development Councils.

The RDC shall report to the President through the NEDA Board. It shall meet as often as necessary but not less than once every quarter. To assist the RDC in the performance of its functions, it shall create various Sectoral Committees with private sector and government membership.

Regional Consultative Assembly

To strengthen further coordination and consultative efforts in the region, a Regional Consultative Assembly was created to serve as a deliberative and consultative body to advise, assist, support, and cooperate with the RDC in discharging its functions. The Assembly is composed of the members of the RDC and its sectoral committees; heads of other national government agencies in the region; and upon invitation of the RDC, representatives of non-governmental organizations, sectarian organizations and academia in the region. The President shall appoint the chairman of the RDC. The Regional Director of the NEDA Secretariat shall be Vice Chairman of the RDC.

To strengthen the role of the RDC in regional planning and budgeting, the Development Budget Coordinating Committee of the NEDA Board shall modify the process of budget preparation and issue guidelines that would provide greater autonomy to the Council in its programs and projects, consistent with regional, provincial, and municipal development plans and with national priorities.

Reorganization of the Local Development Council

Executive Order No. 319, signed by President Aquino on March 4, 1988, reorganized and strengthened the Provincial, Municipal, and Barangay Development Councils. The Councils shall assist local legislative bodies in setting the direction of economic and social development and coordinating development efforts within their jurisdictions.

Functions: The Provincial, City, and Municipal Development Council shall: 1) formulate long-term, medium-term and annual socio-economic development plans and policies; 2) formulate the medium-term and annual public investment programs; 3) appraise and prioritize the socio-economic development programs and projects; 4) formulate local investment incentives to promote the inflow and direction of private investment capital; 5) coordinate, monitor and evaluate programs and project.

The Barangay Development Council shall:

- 1) mobilize citizens' participation in local development efforts;
- 2) identify programs and projects based on local requirements; and
- 3) monitor and evaluate program and project implementation.

The RDC shall integrate into the Regional Development Plan the policies, programs and projects approved by the Sangguniang Panlalawigan (Provincial Assembly) and the sangguniang Panglungsod (City Assembly) of chartered cities prior to submission to the NEDA Board.

Recent Progress on Decentralization

The government of President Aquino is committed to decentralization. It expects decentralization to be reconstituted by January 1992. The government's decentralization agenda is expected to be implemented through the passage of several bills, certified as urgent by the President, in Congress. These bills include: 1) The National Internal Revenue Allocations (NIRA) for local government; 2) the Revised Local Government Code; 3) Decentralized Planning and Budgeting System at the local levels; 4) Increase in salaries of local government personnel and 5) Accountability of such officials. The most important of these decentralization bills, are outlined further below:

1. An Act to Enhance the Financial Autonomy of Local Government Units (S. No. 927).

This bill, principally authorized by Senator Romulo, seeks to implement Section 6, Article X of the new Constitution which provides that: "Local government units shall have a just share, as determined by law, in the national taxes which shall be automatically released to them."

This proposed bill also known as the National Internal Revenue Allotment Bill seeks to enlarge the local government share of national revenue collections by an estimated 13 percent, release them from selected mandatory legal provisions for local budgets (estimated 10 percent reduction) and encourage them to increase local revenue generation by providing additional national revenue grants for improved real property and local business tax collection performance.

This bill also seeks to rationalize the manner of determining local government shares in national tax revenues. Presently, the internal revenue allotments are provided under PD No. 144 as amended by PD No. 1741; the Specific Tax Allotments, under PD No. 436, and the Local Government Revenue Stabilization Fund by appropriation in the 1989 General Appropriation Act. On the other hand, the total collections from specific taxes on oils and other petroleum products from which is derived the specific tax allotments now form part of the general fund collection. There is therefore a compelling need to integrate the entire allotment system to ensure the simplicity and efficiency in its administration and thus stabilize the financial position of the local governments.

The proposed integrated national internal revenue allotment system has the following features:

- a) Twenty per cent of the gross collections from all national internal revenue taxes shall accrue to the local governments to be computed on the basis of the actual collections during the second preceding year.
- b) Allotment Formula: 30 percent to provinces; 25 percent to cities; 35 percent municipalities; and 10 percent to barangays.
- c) Distribution Formula:

For Provinces, cities and municipalities

Population - 70%
Land Area - 20%
Equal Sharing - 10%

For Barangays, the 10 percent allocation shall be divided as follows:

Barangays of all cities - 8%
Barangays of all municipalities - 2%

In addition to the regular allotments that an unit may receive, a province, city or municipality shall be granted an incentive allotment during a calendar year for improved real

property tax collections realized during the second calendar year immediately preceding the current year. An additional 5 percent of the gross national collections shall be set aside and allocated as an Incentive Allotment Fund for them to be distributed as follows:

Collection Efficiency	Incentive Allotment
Below 60%	None
60 - 69%	10%
70 - 79%	15%
80 - 89%	20%
90% & above	25%

- e) Automatic Release - The allotment shares of all local government shall be automatically released to them on a regular monthly basis within the first ten days of the month.
- f) No limitations on actual increases - There shall be no ceilings or limitations in the annual increases of the allotment shares of any local government units.

The bill also proposes the repeal of the statutory contributions of local government to national agencies such as: contributions to the Integrated National Police, hospitals, Metropolitan Manila Commission and Special Education Fund Tax. Such predetermined obligations are no longer in keeping with the concept of promoting local autonomy. Local areas vary sharply as to the needs which these obligations are supposed to satisfy. It is a more realistic and effective policy to allow them to determine the necessary funds to be allocated for these needs in the light of their experience and knowledge of local situations.

To ensure local development these provides that 20 percent of the annual allotment of a province, city or municipality shall accrue to the local infrastructure fund to guarantee provisions for infrastructure and socio-economic development projects.

This bills enjoys support from the President and Executive Branch, and the Leagues of Governors and Mayors. Passage is expected by late 1989.

2. Revised Local Government Code

Section 3, Article X of the 1987 Constitution states: "The congress shall enact a local government code which shall provide for a more responsive and accountable local government structure instituted through a system of decentralization with effective mechanisms of recall, initiative and referendum allocate among the deficient local government units their powers, responsibilities, and resources, and provide for the qualifications, election, appointment and removal, term, salaries, powers and functions and duties of local officials, and all other matters relating to the organization and operation of the local units."

In line with this constitutional provision, Congress is discussing a proposed bill which is supported by the Department of Local Government and Leagues of Governors and Mayors. The Bill, consisting of 5 books, is being reviewed book by book. Books 1 and 2 dealing with general principles and local finance, respectively, are expected to be passed in 1989. The bill proposes seconding national government staff to local government, revenue sharing and block grants, placing infrastructure and most line functions under local government jurisdiction establishing a minimum set of basic services and facilities for each level, setting-up uniform standards and guidelines for implementation, and institutionalizing the use of non-governmental groups to gain increased autonomy.

Under the proposed Revised Code, the budget must first be discussed by the Local Development Councils, one-fourth of whose members come from the private sector. This leads to transparency. The local PBAC will have the Mayor as member/Chairman. He will no longer have approving authority and can't veto its decisions. The minority floor leader automatically is made a member of together with two representatives. With this new membership of the local PBAC together with more transparency in local government action, less graft and corruption is expected.

APPENDIX 5

FINANCE AND LOCAL GOVERNMENT: NOTES ON THE ESF PROGRAM

Manuel S. Alba

To provide some background and thus help in better appreciation of the problems in the implementation of the ECONOMIC SUPPORT FUND PROGRAM, these notes are presented covering some of the relevant aspects in the administration of the ESF program and in the implementation and management of the component projects. The writer's insights are those most relevant to the history of the ESF program before February 1986.

A. THE BUDGETARY PROCESS: ASPECTS RELEVANT TO ESF

1. The process begins with the appropriations of the ESF funds inwardly remitted within the budget or fiscal year and which enter the National Treasury. The annual General Appropriations Acts provide for such appropriation through the setting up of a lump sum fund specifically for the ESF program and with its special provisions defining its releases and usage.
2. The budget execution stage calls for the submission of the detailed program of expenditures (evidenced by the Work and Financial Plan) which serves as the basis for the release of an Advise of Allotment indicating that the implementing agency - in this case, the ESF Secretariat - can now enter into obligations for which the cash releases will be made as requested or as programmed. Cash is not automatically released since that depends on the timing of cash inflows to the National Treasury. The ESF Secretariat then suballots to the implementing agencies, which in turn prepare the necessary funding warrants. The possible bottleneck in this regard is in the preparation of the Work and Financial Plan by the ESF and the implementing agencies. Current process installed has the Department of Budget and Management preparing the funding warrants which had replaced the Cash Disbursements Ceiling informing the National Treasury and the implementing agency that cash could now be withdrawn.

3. The ESF program is considered a "FAPS" or Foreign-Assisted Program/Projects in the nomenclature of budgetary treatment, and therefore receives priority accommodation in the programming of peso counterpart resources. There generally has been no serious problem in the budgetary provision--appropriations and fund releases--with respect to ESF. The problems encountered were in the sub-releases to the agencies.

4. The Office of Budget and Management, then as the Department of Budget and Management, now is the government agency entrusted with the functions of reviewing and approving organizational structure, staffing patterns, and compensation levels for agencies and offices--including project management offices of implementing agencies. Unless specifically exempted by law, all agency will be reviewed by DBM. And unless specifically provided by law, all agencies must comply with staffing and compensation standards. Often, this is where the bottleneck could occur in program and project implementation--delay on the part of the agencies in the submission of acceptable organizational, staffing and compensation proposals. Difficulties in hiring of appropriate and qualified personnel are common as reasons for late start-up and initiation of project/program implementation.

The ESF Secretariat has been classified, for compensation purposes, under the Office of the President which presently enjoys the highest levels of compensation for all levels of personnel.

The Secretariat, too, has been classified as an infrastructure agency which gives it certain autonomy in entering into contracts, i.e., it enjoys approving autonomy in contract approvals at higher ceilings similar to those for the Department of Public Works and Highways. This factor could help facilitate contract preparation and implementation. But it could also be a factor in serious fund anomalies under unscrupulous administrators.

B. PROGRAM/PROJECT DEVELOPMENT AND IDENTIFICATION -
PROCESS AND SOME INSTITUTIONAL POLITICS

1. A regional planning and budgeting system has been instituted which provides for a mechanism for processing program and project proposals. The process channels, from the bottom up, have the local government units--the municipalities, the provinces and chartered cities--submitting their proposals (ostensibly reflected in their respective local development programs) through the Regional Development Councils, which are expected to prioritize globally all regional proposals.
 - 1.1 On another route, the Regional offices of the various national agencies, (Agency Regional Office or ARO) prepare their own "regional programs" which are submitted to their respective Agency Central Offices (ACO), which then make their own evaluations to come up with their own agency program to be submitted for NEDA planning and programming, and for budgetary purposes. The Regional Office, of course, submits its program to the RDC for regional planning.
 - 1.2 Under the Marcos administration, for instance, the various proponents of ESF projects--local governments units and central agencies, submit proposals to the Secretariat, which then prepares the overall ESF program proposal (with individual subproject proposals), to the ESF Council for approval. Under present arrangements, the RDC has been given greater say in processing proposals for national government programs and for ESF as well.
 - 1.3 As could be expected, the RDC's and the regional offices are often at odds with the central departments about program and project priorities. In fact, during the past administration, approximately only 20 percent of proposals coming from the RDC's found their way to the final budget program, which meant that central agency determination dictated much of the agency programming.
2. A regional budgeting system was instituted sometime in 1980, which called for translating the regional plans and programs in terms of annual budget programs. As a vehicle for achieving this, the RDC's were required to prepare Regional Development Investment Program or RDIP which ostensibly contained the details of project listings for the region including the projects to be considered under the ESF. While, this helped in the recognition of the regionally determined regional priorities, yet as indicated above, only

twenty percent (20%) of RDIP proposals eventually were included in the annual budget program.

3. Three proponent sectors are generally active in the efforts of recommending programs and projects. These are the central agency staff (including their regional office staffs), the local government executives and the members of the legislature (Batasang Pambansa or Parliament during the Marcos government, and now the members of Congress, particularly the members of the House of Representatives). They ought to work together since they have common beneficiary constituents. There are, however, a number of provinces where the local government executives and the province's representatives to Congress are on the opposite political camps, or are in an adversarial situation. There could therefore be some disagreement on project priorities. The local government executives belong to the executive branch of government and thus more often work with the executives of the executive branch implementing agencies. The members of Congress, however, have a lot of say on the budget program and their help in assuring funding for projects is crucial.

C. CONCEPTS AND ISSUES ON REGIONALIZATION AND DECENTRALIZATION:
IMPLICATIONS FOR ESF

1. Initiatives towards regionalization have been pursued both in the executive and legislative branches of government. In the executive branch, the NEDA and Department of Budget Management have been spearheading the development of such a framework. In the legislature, there are bills in both houses covering the adoption of various schemes of regionalization, localization and autonomy - all with implications on the budget process and on program and project development and implementation.

There is, however, no agreement on just what regionalization is. The country is already regionalized from the standpoint of planning. Regional planning is in place. It is the issue of the locus of the decision-making that is unresolved.

- 1.1 From the planning and programming standpoint, regionalization should mean that whatever the Regional Development Council decides and approves should hold and be respected by the Central agencies.

1.2 From the Budgetary standpoint, it should go beyond prioritization by regional development councils, but should include actual authority to decide on allocations of a predetermined regional budget ceiling. For instance, the national government could decide that ₱2 billion in infrastructure funds be approved for Region I, and it is up to RDC for Region I to determine how such an amount could be allocated. In addition, budget execution could be assumed by regional or local authorities. This means disbursements would be under the authority and accountability of regional and local authorities such as the local governments.

1.3 Regional or Local Development Management Authority. Regionalization, which then calls for devolution of authority or decision-making to regional or local government units, in turn requires defining and institution of a regional or local authority endowed not only with planning and programming functions but with execution and implementation as well.

As an example, in the case of the World Bank funded Central Visayas Regional Program (CVRP), a Central Visayas Regional Program Council (a planning, programming and executive council) has been established for the purpose of managing the CVRP. The CVRP council staff equivalent of ESF Secretariat) carries on the entire gamut of functions and project development to execution. Under the immediate past administration, the regional council reports for coordination purposes to a National Council on Integrated Area Development (or NACIAD) which was then under the chairmanship of the Prime Minister.

The advantage of the NACIAD approach is that project inputs and activities are under one coordinative and implementive council. Before, the implementing agencies went about separately doing their own shares of the project or program creating problems in the timing of implementation of various components. This explains some of the serious delays in multi-sectoral (hence multi-agencies) programs and projects.

2.1 LGUs in this respect refer to municipal chartered city and provincial governments. Increasingly, they have been given greater responsibilities in project implementation. This has been the case particularly in local infrastructures, (basically local roads, municipal buildings, and public markets) but which now has included even elementary and secondary schools. During the previous

administration, fifty percent of such local infrastructures - basically elementary schools and local roads-were implemented by the LGUs with funds released either through the Ministry of Local Government or the Ministry of Public Works and Highways, i.e., these two ministries suballots to the concerned LGU's. The well-funded LGU's, those with greater revenue-generating capacities such as the first class provinces and chartered cities, have developed certain capabilities for project development, planning and implementation.

2.2 In cases where infrastructure projects are delegated to the LGUs for implementation, technical and managerial assistance will be provided by the traditional implementing agencies such as the Department of Public Works and Highways. NEDA and the Budget department through the Regional Offices, also could provide planning, programming and other technical assistance services. It is part of their functions.

2.3 In the final analysis, the long-term prospect for improved capacity on the part of local governments to implement national projects located in their areas, depends on raising the level of technical and managerial capabilities to implement programs and projects. Efforts and programs for upgrading skills of LGU staffs in this regard have been ongoing. In the recent past, USAID provided funding and technical assistance in implementing the Provincial Development Assistance Program, implemented through the Ministry of Local Government and benefited no less than 28 provinces and cities.

Then the Development Academy of the Philippines conducted project management and executive training programs not only for national government agencies but also for local government executives and staff. Currently, there are programs in the Asian Institute of Management to train provincial executives, starting with the governors, for purposes of upgrading local capabilities in planning, programming and project management.

2.4 From the strategic considerations, there should be greater grant of authority to LGUs to implement development projects. Ostensibly, social development projects lend themselves to this kind of delegation or decentralization. USAID itself had assisted on primary health care program, the Panay Unified Services for Health or PUSH implemented in the four provinces of Panay with significant implementing

participated by LGUs. It is believed this experience with PUSH was very helpful in the eventual launching of the Primary Health Care Program of the national government.

The role of the national government agencies is to provide technical assistance which includes providing training to local staff as well as detailing personnel under the supervision of local managers.

Budgetary and accounting procedures could be worked out accordingly as had been pursued by the Department of Budget and Management.

- 2.5 ESF projects lend themselves much to local project management arrangements, since by nature these are projects which are "local" in both venue and benefits. That element itself could provide the impetus to local governments given their stake in such projects.

In an effort to improve on the performance with respect to the implementation of ESF project, these considerations need to be taken into account.

D. ON THE STATUS OF THE ESF SECRETARIAT

A final note can be made on this matter: the dual character of the Secretariat and the dichotomous set up with respect to its administrative character ought to be resolved. It could send confusing signals to the field and has already created some bottlenecks in administrative systems and procedures, and in project development, planning and funding.

1. Recent thoughts on development programming and management, in the Philippine context, have indicated directions in minimizing the role of NEDA in direct program and project implementation. It must concentrate on planning, evaluation and monitoring of development and perhaps providing technical assistance to other agencies including local

government units. NEDA's involvement in project implementation is a carry-over from its initial years when special project management agencies and units were not yet in existence or were still short of capabilities. Now there are and NEDA's role accordingly could be adjusted.

2. But neither is the Office of the President supposed to be involved in project implementation. Its main task is to coordinate overall government efforts and activities in behalf of the President and directs the appropriate government agencies, cabinet offices, corporations, and LGU's. The involvement of the Office of the President in project management activities again stemmed from the earlier days of the Marcos administration, specifically under Secretary Alex Melchor, who, when the Presidential Management Staff set up functioning like a superbody, oversaw everything. But essentially, it should be the operating and implementing agencies that should be upgraded and given the tasks. There is a need to review the authority given to such agencies.
3. The preference of many offices, particularly the newly created ones, to be classified under the Office of the President is the leverage of authority and stature and compensation levels that such classification can attain for the office.
4. To resolve the impasse, three options could be considered:
 - 4.1 Option One - Place ESF Secretariat, both its "secretariat" and its "project implementation functions" under NEDA, as NEDA proposes.
 - 4.2 Place the ESF Secretariat totally with the Office of the President.

Both of these options are to resolve the ESF Secretariat's identity crisis and thus resolve a number of its administrative and operating difficulties.

 - 4.3 A third option is to create a totally separate office endowed with authority to implement ESF program (since by itself it is fairly significant program to continue for sometime). It can retain its infrastructure agency character and its Presidential office compensation levels.

It could be granted some form of "corporate" authority and autonomy. It could still be listed as an presidential agency without being administratively under it. The model could be those corporate entities labelled "AUTHORITY" or "ADMINISTRATION," such as the National Housing Authority. or it could just be a plain operating agency. After all, all government agencies are directly responsible to the President.

This could be done without additional expense on the part of the government. But the set-up would lend itself to better assessment of implementation performance by the agency.

APPENDIX 6

MAINTENANCE -- THE PHILIPPINE EXPERIENCE

Robert Fedel

The terms of reference for evaluating the Secretariat's process in administering ESF projects does not include any analysis of the maintenance activities associated with the various types of projects. The usual maintenance report consists of describing the agencies with maintenance responsibility and assumes that these agencies will follow a technically well written, maintenance plan to take care of our projects. It then goes on to tell how much is allocated each year and how much equipment is owned.

The writer, however, realizing the importance of maintenance, adopted an unsophisticated approach which: 1) looked at schools, some built as early as 1973 and 1947; and 2) drove over roads of various physical classifications; and 3) walked around functioning markets and completed markets requiring occupants and construction corrections; and 4) walked around inactive, padlocked, complete and partially complete slaughterhouses.

Since the level of maintenance being carried out depends upon the assessor and what it takes to satisfy him or her, the writer decided not to assume funds were readily available to carry out a high degree of maintenance and only looked at subproject's functionality. As deduced from questions such as; were the schools usable by pupils who are not adversely affected by dull painted classrooms, difficult closing wooden doors or missing slats from louvered windows, or the peeling of paint from roof gutters, or loose downspouts? If one accepts, as the writer did, these deficiencies as being less important than the learning process dispensed in the schools, then all the ESF schools observed are being fully utilized in spite of insufficient maintenance. Idealistically, the writer would believe that maintenance funds have been diverted to new school construction. Similarly, if travel over the roads was possible at 15-25 miles per hour, with slowdowns for the larger potholes, then the roads, over three years old with no or minimal maintenance, appeared to be serving their intended function, i.e. mostly to get to the better roads connecting the major population areas.

Philippine infrastructure maintenance, or the lack thereof, is not unlike maintenance activities the world over. Governmental budgeting agencies tend to place maintenance allocations at low priority, usually assigning limited public works budgets to new construction, which can demonstrate responsiveness to public demand for visible improvements. When such funds are, in fact appropriated for maintenance, there is always a tendency to utilize these funds to finance emergency projects or projects inadvertently omitted from capital program budgets. In the Philippines, maintenance funds have sometimes been referred to as "diverted" funds since they have, in the past, been diverted to other, or underfinanced, budget priorities.

Before looking at the maintenance of ESF projects in the Philippines, let's look at maintenance elsewhere. Infrastructure maintenance in the United States, for example, has problems. The 41,000 mile interstate highway system, constructed over the past thirty years, now finds itself in a state of such disrepair (due partially to insufficient maintenance and partially to old age) that the Congress is working feverishly to come up with large amounts of funds to save or rebuild that highway transport network which is essential to interstate commerce as well as the traveling public. Over the past several years there have been serious failures in bridge structures directly attributed to the lack of maintenance. Programs have been initiated to inspect all bridges, particularly to evaluate the hidden members which have not been scraped and painted. In some bridges, structural members have completely rusted away beneath coats of paint. In many cases the bridge designs included safety factors which keep the structure standing, but not passable, until repairs are accomplished or a new structure built. Sometimes auto traffic can be maintained with a prohibition on heavy trucks. This condition, naturally, is not acceptable to the interstate truckers who move high-value goods critical to the U.S. economy. It is particularly distasteful since truck taxes contribute heavily to the National Highway Trust Fund, which is used to finance highway and bridge construction.

Similar maintenance is needed for building structures. Hotel fires in recent years have been attributed to a lack of inspections and maintenance of electrical and sprinkler systems. School buildings throughout America, particularly urban areas, have sustained broken doors, windows, toilets, sinks and graffiti painted over the walls. Most of these damages are attributed to vandalism. The New York subway system, whose cars are covered with graffiti, are not being repainted but have become a mobile Nevo Art exhibit. These comments are not intended to disparage the frustrating efforts of United States agencies to keep up with maintenance. They are only highlighted to serve as a comparison when evaluating, or placing in perspective, the state of Philippine maintenance on infrastructure projects financed with USAID's ESF funds.

The purpose of maintenance is to prolong the functional life of an infrastructure facility as it was originally intended, that is: to provide the economic benefits which justified the original investments. The several classes of ESF-funded infrastructure projects are discussed below with an appraisal of their functional status and some of the reasons why optimal maintenance cannot or has not been carried out. Since all maintenance is related to sufficient and available funding the Government of the Philippines and its national, provincial and municipal agencies, in general, appear to be doing what they can with limited funding to maintain the projects funded by USAID. No effort has been made to make a value judgment as to how efficiently those available funds have been spent.

ROADS

Thirty-two completed road projects were traveled by the evaluation team. Maintenance allocations by the Bureau of Maintenance in the Department of Public Works and Highways (DPWH) are usually made on the basis of kilometers of roads in the various classes. (i.e. within the National, Provincial, Municipal and Barangay networks. The respective highway agencies all recognize the maintenance problems and one measure taken is to consider the construction of concrete surfaced highways needing minimum future maintenance.

Concrete and asphaltic concrete roads carry large volumes of heavy traffic; surface treated and gravel roads carry less volume and weight of vehicles. Proper management of water runoff is the greatest factor in road deterioration, and regular ditch and drain cleaning, usually by hand labor, is necessary on all types of roads. Concrete roads have a useful life of 15 to 30 years. Maintenance consists of sealing cracks or reconstructing potholes created by water penetration into underlying materials which support the concrete slab.

Asphaltic concrete surfaced roads, are constructed of compacted asphalt, usually about two inches thick which, like concrete roads, is placed over a selected material base. They require continuous inspection to insure that the surface remains unbroken. When surface cracks and failures are found, they need early patching and sealing. Without prompt attention, water enters the cracks and holes grow into full fledged tire bursting potholes. Several such deteriorating roads were traveled and appeared not to have had any maintenance, yet remained/reasonably passable after three or four years of inattention. The asphalt used to patch asphaltic concrete roads is usually produced according to formula, by expensive mixing equipment. Pothole repair requires compressors to reshape the holes. Small compaction units stabilize the fill material. One province visited described its

pothole work as follows. A pile of aggregate is dumped in the vicinity and a fire is built under a barrel of solid asphalt, which when melted, is poured over the aggregate. Compaction usually is done by passing a truck, if available, over the patched areas. Although repairs by this method are adequate, it is inefficient in regularly maintaining hundreds of kilometers of road.

Bituminous surface treated, and gravel roads serve lesser volumes of traffic. Bituminous treated surfaces are somewhat more fragile than asphalt and susceptible to more rapid deterioration. The surfacing operation usually consists of two passes of sprayed, viscous asphalt which is covered with small gravel over the first coat and smaller gravel over the second. A bituminous sprayer truck is needed to apply the coatings. Maintenance, in addition to regular patching includes complete resurfacing every five to seven years with annual pothole repairs. Those bituminous surfaced roads observed were lacking in any maintenance, most probably due to lack of equipment.

Gravel roads, if constructed with good porous, compacted, graded material will serve limited traffic volumes. If clay soil is absent, or at a minimum, the compacted road will withstand traffic for long periods of time with regular passes of a grader and renewed compaction. One of several gravel roads observed appeared to be structurally sound and devoid of ruts. The larger aggregate however made driving bumpy. Since grass was encroaching on the sides and middle of the road it appeared obvious that a grader had not passed that way recently. The road however, was providing access to a barangay, thus serving its intended purpose and therefore worth the investment. Motorgraders are used to shape the road, rollers compact the material.

Equipment is essential for road maintenance and no effort was made in the evaluation to inventory or assess the adequacy or quantity of equipment. A visit to the provincial engineer's office, located at a motor pool, identified some of the problem. The absence of road maintenance equipment was immediately obvious.

It is apparent that provincial technical staff would like to undertake proper maintenance of their roads. To do so in an efficient manner requires: money for expensive equipment; money for equipment operations; money to hire mechanics to keep it running, and money for manpower, fuel and asphalt and spare parts. Although the provincial resources in this instance were limited and the extent of work required was overwhelming, the provincial staff gave the impression of doing the best they could.

SCHOOLS

In addition to ESF funded schools, the Department of Public Works and Highways, designs, supervises and funds school construction throughout the Philippines. Funds are also available for that department to perform physical repairs on all public buildings including schools. Sixty-one schools, constructed as early as 1973, were visited by the evaluation team. They were structurally sound except for one which developed cracks due to realignment of an adjoining unstable hillside. Time and students, however, took its toll on the doors and wooden slats used for windows, but all doors were capable of being locked and admittance by window was not possible. Many schools required painting and minor repairs to hanging drains. Like most outdoor public privies, those at schools needed cleaning. Since schools were currently closed for vacations, it is optimistically hoped that sanitary facilities would be cleaned prior to school opening, also that PTA's would generally spruce up the grounds.

In most cases the PTA's manage to raise funds. One school principal noted that the PTA's in the months prior to school opening raised 18,000 pesos (US \$900) to help buy furniture. The Department of Public Works funding for classrooms does not include furniture. School officials, however, happily noted that ESF funded schools did include furniture and blackboards. PTA efforts are not limited to furniture, several built outdoor stages, painted buildings and, with the participation of students, planted gardens and shrubbery. In most cases such improvements were carried out on elementary schools where student pride appeared greater than in secondary schools. In general, the ESF funded schools are being fully utilized and maintained by the various concerned groups and agencies.

OTHER ESF INFRASTRUCTURE PROJECTS

A limited number of other public service infrastructure projects were financed by ESF and like the schools and roads, they too, required maintenance.

DRAINAGE FACILITIES

An ESF drainage project in Tarlac provides for the construction of drainage ditches alongside a major urban highway. Its purpose is to remove surface water runoff which otherwise results in roadway and neighborhood flooding. This structure, like the roadside drains in open country, require regular cleaning to remove debris which otherwise impede the movement of water. In the case of Tarlac, it is expected that the city's cleaning crews will undertake this task along with their street cleaning duties.

SOLID WASTE DISPOSAL

ESF has financed the construction of two solid waste disposal projects. One is presently overused, the other has not yet been activated due to the absence of a dozer, which was to have been provided by USAID excess property. Ideally, equipment specially designed for use in solid waste disposal handling should be used. More often, however, a dozer is used to level, move and compact dumped trash. A conveyor belt from building to dump area is used to sort out recyclable materials. Needed specialized equipment ("sanitary land fill compactor") compacts the layers of trash and moves earth to cover each layer. Another benefit of providing this specialized piece of equipment is that it is difficult to use on normal earth moving jobs.

The dozer at one disposal site was provided from U.S. excess property and like much of the equipment provided from this source, was more often down for repairs and parts than it was operational. When operational, it was transferred to other work sites. The conveyor was inoperative due to cannibalization. Trash sorting took place by individuals accumulating little piles of "goodies" around the area. Piled trash, which showed no evidence of having been compacted in layers or of having had an earth layer, was poured haphazardly down the hillside. The site could be better managed to perform its function if trained staff with the proper equipment were provided. Until then, it is only a refuse dump with little or no environmental controls to prohibit pollution of drains at base of the hill. U.S. excess property should not be programmed for ESF projects.

MAINTENANCE OF REVENUE PRODUCING ESF PROJECTS

All revenue producing enterprises, either public or private, require maintenance by equipment and manpower to keep the facilities earning income. ESF projects falling in this category are slaughterhouses, markets and hospitals.

The income to the municipalities is generated, in the case of slaughterhouses, by charges for killing and possibly butchering and storing animals. Sanitation and offal removal is a major effort along with staff necessary to carry out the work.

In the case of markets, income is generated by: 1) rental of covered floor space and stalls at a monthly rate and 2) day rental of open ground space around the periphery of the market building.

Maintenance staff are needed to clean the facility and maintain the physical structure, keeping electricity and plumbing in working order. An office staff manages the rentals and accounting. External assistance is needed to dispose of the daily accumulated refuse and trash.

Hospitals also require internal physical maintenance and repair along with specialized skills to maintain medical equipment. Hospitals visited were well maintained and appeared fully operational.

All the maintenance required for hospitals, markets, and slaughterhouses is financed by the municipality from the income generated by the facility. Few of the active markets, earned enough to pay costs and make loan repayments.

The following paragraphs are the writer's technical assessment of four slaughterhouse and market projects visited which illustrate some of the earlier design and construction problems contributing to the recent tightening up of technical oversight by USAID and the Secretariat.

SLAUGHTERHOUSES

Two slaughterhouses were personally observed. One was completed in January 1986, its gates were locked pending a revised design to incorporate guidelines adopted by the National Meat Inspection Commission (NMIC). Such guidelines were neither sought nor followed by the CMES engineering firm in the initial design. The second slaughterhouse was similarly locked but incomplete and overrun with undergrowth. Construction ceased in November 1986 due to a similar requirement for compliance with NMIC building and equipment standards.

To the writer, the cause of the situation rests with: 1) The Secretariat technical staff (1981 to 1985); 2) The CMES engineer design firm who did the original designs; (1981-1983) and 3) The in-house engineer consultant to the ESF Secretariat (1987-1989).

NMIC was created by Presidential Decree 7. Its powers were further set forth in the Office of the President's Memorandum Circular 897, which established their authority to review and approve all buildings and equipment plans for slaughterhouses. Neither the Secretariat technical staff nor the CMES firm appeared to have been aware of any requirement for NMIC involvement. In 1986, the NMIC was asked to approve the completed work. They had not been contacted regarding the appropriate size and equipment needed for different production levels which effect building size. Approval for one slaughterhouse was received just prior to the revolution, but was not honored by the new NMIC management that took over under the new administration. Another problem was that NMIC design standards were not available. The design deficiencies were discussed with appropriate representatives of municipality, Secretariat and USAID. Ministry of Local Government Memorandum 75-86, reportedly, establishes the municipality as NMIC contact for slaughterhouse matters.

Both USAID and the Secretariat were concerned about the need for redesign and negotiations and discussions extended over a two year period. A new in-house consultant was brought into the Secretariat in 1987 but apparently did not focus on the problem till late 1988 when reported meetings were held with NMIC resulting in the Secretariat preparation of standards. They were sent to NMIC for review. The NMIC made written comments in March 1989. A final document is now ready for approval.

CITY MARKETS

The teams exposure to two incomplete market projects contributed to conclusions on the adequacy of engineering services provided by the CMES consultants (prior to 1983 and 1984). Construction services on these two projects started in January 1984 and July 1985. Reportedly, the contracting process under the prior administration was lenient, resulting in the selection of lesser qualified contractors operating under uncertain supervision. The poor workmanship and/or technical supervision of ESF markets resulted in structural failure of a roof overhang and the redesign of other market's supporting columns and structural work. (Design required 10 inch square columns but contractor built eight inch. Half inch steel was specified for girders, 1/4 inch was erected. These deficiencies were identified by USAID auditors, who with a USAID's financed consultant, looked at nine market projects in varying degrees of construction. Results of that review showed up the two markets above. The needed redesign was carried out and one market is ready for reconstruction. The other has been physically corrected but the contractor is held up by the municipality's inaction in removing squatters to permit construction of a water line to serve the market. In the meantime, the revenue generating facilities are unoccupied and income, conceivably intended to repay the construction loan, is not forthcoming.

COMMENTS

Design and construction deficiencies of an earlier administration's efforts have, and are, regularly being improved. Marked improvements have been observed. Although the market and slaughterhouse construction hiatuses still require full resolution, the Secretariat has prepared detailed manuals for contractor prequalification, solicitation, contracting and procurement of engineering and construction services. USAID is reviewing the manuals for their use on ESF projects. The ESF Secretariat, with appropriate emphasis on technical monitoring and increased contact with the design and construction agencies, could help assure quality ESF projects. The evaluation report recommends that the Secretariat acquire high level engineer skills to work at regional offices to be closer to the engineering works.

New administration directives have also focused on improving contracting procedures. USAID's direct involvement in past markets construction has, undoubtedly, resulted in rectifying many deficiencies before they could occur. With limited staff USAID has provided the majority of project oversight which, since early 1986, should have been assumed by the ESF Secretariat.

Its summary, the bugs appear to have been removed from ESF project implementation to the benefit of future ESF projects. In view of the built-in inherent and potential administrative controversies associated with USAID's loan financing of revenue generating projects, (markets and slaughterhouses), it would be more appropriate for USAID to leave financing of such facilities to other lending institutions and concentrate on roads, schools, clinics and small hospitals. Maintenance of ESF projects remains inadequate and USAID should consider developing a maintenance project concentrating on roads and schools. Such an effort will require much cooperation from government agencies in order to insure they all agree to consolidate their resources and efforts.

APPENDIX 7

SUBIC BAY

David I. Steinberg

The Philippine government and USAID both should face major problems in the Subic Bay area, which also offer more important opportunities for USAID assistance. The Olongapo Sanitary Land Fill subproject, supported by the Secretariat, is an environmental disaster. It is now operating as an open dump creating potential health hazards for the area. More specifically, a major typhoon could drain through the fill into the drinking water of Olongapo City, and into Subic Bay. USAID and the Secretariat have been aware of the problem, and have taken steps to mitigate the concerns, but it remains a serious question to which only temporary measures have been addressed. The Olongapo market, another ESF subproject under construction, will discharge its liquid waste (with the exception of the latrines) into the Bay. This is happening at the same time that the population of the city, which was 190,000 in 1980, is growing at a rate of about 4 percent a year.

The municipality of Subic is also growing. There, the market similarly supported by ESF also discharges its waste directly into the Bay. The facilities for US Navy treatment of waste from the base is not known to this writer. In any case, within the confines of this relatively small and protected bay of striking beauty and tourist potential, there are probably close to some 300,000 people who effectively are polluting a national resource. Urban sprawl and greed will further reduce the capacity of the Bay to provide a hospitable environment for its inhabitants, and future employment for its citizens.

Comprehensive protection of the Bay is not within the bureaucratic responsibilities of the individual urban entities that dot its shore. The Province of Zambales has broader responsibilities and probably other priorities. Bataan has no major population sites on the Bay as yet, but shares its shores. Yet, the United States has a vested interest in protecting this Bay, with which it has been associated for some ninety years, and leaving it to the Philippine government as an environmentally protected area with or without continuation of that base.

Such an effort could be assisted through the ESF program. It would be a logical extension of present programs, use ESF funds in direct support to a base area, comply with growing AID interest worldwide in

the environment, and demonstrate the social responsibility of the U.S. government in an integrated manner. Thus it is proposed that the ESF program initiate a Subic Bay Environmental Coordinating Committee to develop a master plan and urgent action program for protection of this resource. Such a Committee might be composed of the mayors of Olongapo and Subic, the U.S. Base Commander, the Governors of Zambales and Bataan, and such other figures who might be appropriate. The Secretariat could fund the development of a master plan for the environmental protection of the Bay using Philippine environmental specialists, and a subsequent series of projects that would treat waste water disposal. As part of this plan, the various municipalities should institute urban planning and zoning for the municipalities on the littoral.

This program might constitute a model for other integrated environmental areas that might also attract both AID and other support.

APPENDIX 8

NOTES ON INCOME PRODUCING PROJECTS AND A STUDY OF THE LEGASPI PUBLIC MARKET

James W. Dawson, Ma. Belen R. Alingasa,
David I. Steinberg

A. General

The three ESF projects being evaluated include a variety of projects as potentially generating income for local municipalities or cities. These are markets, slaughterhouses, cattle auction facilities, and the like. They have been regarded as of priority as they serve the financial interests of the community, provide needed services, foster the private sector even if they are public enterprises, and assist in preserving health standards.

In the abstract, these projects are attractive, and if decentralization is to have meaning, then more means must be found to generate local income to service these needs. Income generating projects thus make good sense for these various reasons. In fact, USAID in its analysis predicted an internal economic rate of return of 28 percent to the municipalities involved. It also demonstrated how modern markets could contribute to the health and social needs in the communities served.

Public markets constitute the majority of income producing project to date. There is no doubt about the importance of markets in the Philippine scene, and their social as well as community functions. This need is demonstrated by the old public markets that exist throughout the country and the number of private markets that are often in competition with them. Yet for a variety of complex reasons this project has not met its goals, as the markets are exceedingly difficult to design and administer, generate little income on average (and more often lose money), seem to be no more sanitary than traditional markets, and tend to be slow in completion, and thus slow disbursement, projects.

In the course of their field trips, the evaluation team was able to visit nineteen of the markets supported under the Economic Support Fund projects. Of this number, two were in major cities (Baguio and Dumaguete), and the remainder in market towns, including provincial capitals. One market was under construction (Olongapo), two were virtually finished but were not yet operational (Baguio and Bamban), and one was fully functional although it had only opened a week earlier (Iba). The remainder, in spite of some construction or equipment defects or deficiencies, were functional, although one team reported a significant number of empty stalls in several markets. For the purposes of this discussion, and reflecting the experience of the team, we will deal with the financial aspects of the markets, assuming (which seemed to be the case in markets visited) that they were essentially fully occupied.

The financial aspects of markets are complex, because incomes derived from markets are not only, or even in the majority, a result of the markets per se. There are two types of incomes associated with the markets: the stall fees and "cash tickets." Stall fees are obvious, but "cash tickets" are the payments made by the vendors to the municipality on a daily basis for the use of the land around the market. Occasionally (it seems to vary by market) "cash tickets" include fish and meat vendors in such designated stalls. In other places, "cash tickets" refer to those vendors outside the market but on the immediate periphery. These are terribly important to the generation of municipal funds, but cannot be included in analysis of the market's financial returns, for these vendors would exist on any open, undeveloped space provided by the municipality. They follow customers, so they are attracted to markets but are not a part of them, even though their fees are normally collected by the market supervisor.

The costs of maintaining the markets normally included the personnel involved (both public servants, such as the market manager, and casual laborers), operational maintenance and cleaning, and a very small fund (perhaps a few hundred dollars) for any capital expenditures. Sometimes in the public accounts the operation and income from the markets are mixed with those of the slaughterhouses. Since this evaluation was not designed as a detailed financial analysis of markets, only a limited time could be spent at each market. In each case on which data were provided, either the municipal treasurer, market manager, or both provided the information.

When the "cash tickets" are excluded from the markets, three of the operational markets were losing money outright (based on

1988 figures), one market's profit was less than the costs of the insurance it was supposed to have (but did not), one market would just break even when it bought insurance and paid back only the 9 percent interest on 30 percent of its capital costs, one market showed a profit because it raised fees 25 percent against the wishes of the stall holders, and the new one anticipated a clear profit, but it had only been in operation one week. In all cases except the last, no municipality could afford to repay the principal on the loan, and in several cases the responsible municipal officials did not know the loan existed. One mayor mentioned that he had a market designed, and calling all the stallholders of the old market together, he informed them that the stall fees would have to be raised from 300 percent to 1000 percent to pay for the new structure. When asked their opinion, the stallholders replied that they would rather send their children to school than work in a palace. The new market was not built.

In several cases there was no water. In one, it had been assumed that the existing town supply would be adequate for both the town and the market. This proved to be incorrect, and thus the market was not supplied. In another, since the market was already losing money, the municipality decided that water was a luxury they could not afford, along with electricity. In a third, the pump had been broken for eight or nine months, and we were informed it could not be repaired. In another, the water was turned on only in the early morning and late in the afternoon, the management having removed the carefully installed spigots.

In all cases, and in spite of good tile work in the wet sections (meat and fish), conditions could not be described as sanitary. The areas were covered with flies, lacked any provision for either temporary or more permanent refrigeration, and although cleaned at the close of business, were not even rudimentarily hygienic. One Secretariat staff member indicated that she would not buy meat or fish from such a market.

The health problems are compounded by problems of garbage and waste disposal. The refuse in one case was dumped next to the market pavement and what did not burn was left to rot. We were informed that this was an improvement, as the garbage was originally dumped under the water tank and over the well. Except for toilets, which have septic tanks, all other liquid waste is drained into nearby creeks or streams. In one case, the waste empties directly into Subic Bay, untreated. In a number of markets, even the rudimentary drainage systems had either not been completed or were not functioning.

There are complaints that the markets are overdesigned, and thus too expensive. All the markets that had the potential for a second floor built into the structure (thus raising costs significantly even if the flooring and stairs were not added), did not want them. One used the second floor as a temporary high school, lacking any other facility. Overall, the markets were reasonably well maintained and internal floor areas swept. They are no less crowded than old or private markets, and offer no better ventilation. The fastidious might be bothered by the dark, drooping tropical cobwebs that festooned the ceilings and rafters of many.

Local officials had several reoccurring complaints. One was that a design was foisted on them that was too expensive, and which was not responsive to their fiscal needs, or sometimes their particular requirements. This pinpoints a major problem in centrally administered programs of any sort: the administrative ease of central administrations, even sometimes their needs, require standardization of designs to meet quotas of performance. In effect, to keep a program going, the sponsor sacrifices some of the needs of the recipients. It is one thing if that is grant funds, quite another when it is a loan.

The Secretariat is planning to move to smaller, modular markets, which is a step in the right direction, but is probably too late. The World Bank PREMIUMED program is constructing markets at about half the costs of the Secretariat's, but even then there are complaints that they are not what the stallholders want. For example, in Davao the stallholders in the meat section covered over the tiles with plywood, because they need chopping blocks, but no one had bothered to ask them.

An unreported aspect of markets in the Philippines is the issue of "goodwill" monies paid to whomever in order that a potential stallholders gets his/her stall. The volume of such monies is said to be high, but remains unquantified. The impact of this practice is that the official stall rental fees must either be reduced or remain low so that retail prices remain competitive. Thus the actual incomes of markets are appreciably lower than what one might otherwise expect.

The saving financial aspects of markets are the "cash tickets." Insofar as markets are built, they should be designed to include major paved and hoseable areas for vendors, for this is where the income to the municipality really lies. It is not in market structures, even less in slaughterhouses.

The following is an analysis of seven markets visited by the team in Region III. Income and expense figures were obtained in conversation with mayors, city treasurers and/or the market managers. No attempt has been made to verify these figures. The annual 1988 interest and/or principal figures were obtained from data prepared by the Secretariat.

Notes on Market Finance

Market A: Cost P21.5 million, Loan P12.5 million, Interest 9%, Term 25 years.

1988: Stall Income	P	175,000
Cash Ticket Income		<u>472,000</u>
Gross Income		647,000
Operating Expenses		<u>400,000</u>
Operating Income		274,000
Interest Only		<u>695,000</u>
Profit or Loss		<u>(448,464)</u>

Market B: Cost P17.1 million, Loan P4.4 million, Interest 9%, 15 years term, completed?

1988: Stall Income	P	550,000
Cash Ticket Income		<u>134,000</u>
Gross Income		684,000
Operating Expense		<u>626,448</u>
Operating Income		57,512
Principal and Interest		<u>586,455</u>
Profit or Loss		<u>(528,943)</u>

Market C: (Public Market and Livestock Market) : Cost P 15 million, Loan P 7.0 million, Interest 9%, 15 years term

1988: Stall Income	P	833,000
Cash Tickets		180,000
Slaughterhouse		119,000
Livestock Mkt.		<u>25,283</u>
Gross Income		1,157,238
Operating Expense		<u>935,000</u>
Operating Income		<u>222,000</u>
Principal Interest		<u>924,430</u>
Profit or Loss		<u>(702,430)</u>

Market D: Cost P 11.5 million, Loan P 3.0 million, Interest 9%, Term 15 years

1988: Stall Income	P	289,000
Cash Tickets		180,000
Slaughterhouse		<u>17,948</u>
Gross Income		486,948
Operating Expense		<u>237,099</u>
Operating Income		<u>249,849</u>
Principal and Interest		<u>349,686</u>
Profit or Loss		<u>(144,837)</u>

Market E: Cost P 12.1 million, Loan P 3.2 million, Interest 9%, 15 years term

1988: Stall Income	P	386,456
Cash Tickets		72,000
Slaughterhouse		<u>13,138</u>
Gross Income		471,594
Operating Expense		<u>237,099</u>
Operating Income		<u>234,099</u>
Principal and Interest		<u>417,586</u>
Profit or Loss		<u>(183,091)</u>

Market F: Cost P 19.7 million, Loan P 6.9 million, 9% Interest, 15 years term.

1988: Stall Income	P	490,00
Cash Tickets		<u>240,00</u>
Gross Income		730,00
Operating Expense		<u>608,096</u>
Operating Income		121,906
Interest Only		<u>621,029</u>
Profit or Loss		<u>(499,125)</u>

Market G: Cost P 8.5 million, Loan P 2.6 million, 9% Interest Rate, 25 years term.

1988: Stall Income	P	1,305,592
Slaughterhouse		<u>2,077</u>
Gross Income		1,498,029
Operating Expense		<u>1,058,592</u>
Operating Income		439,437
Principal and Interest		<u>263,680</u>
Profit or Loss		<u>175,757</u>

B. Legaspi Public Market

A much more detailed analysis was undertaken with respect to the Legaspi Public Market, which is presented below:

1. Basic Data: Cost P 26.4 million, Loan P 22.8 million, 12% Interest, 25 years term.

1988 Interest	P	1,933,635
1988 Principal		<u>826,365</u>
Total 1988 P & I	P	2,760,000

2. Background and Discussion:

In August, 1983 a study conducted by the Market Infrastructure Development Council (MIDC) confirmed the feasibility of a proposed new municipal market for Legaspi City. The market, as proposed, would have provided 680

permanent stalls within a new covered market of 7,200 square meters (3,680 sq.m. devoted to stalls and 3,520 sq.m. to aisles and public areas). The proposed new structure was to replace seven small, semi-permanent structures constructed between 1947 and 1950. An adjoining two-story concrete structure built in 1965 and containing 2,656 square meters was to be retained and operated in conjunction with the new market. In conducting their study, MIDC did not appear to utilize the projected income from the existing structure or from daily cash tickets sold to ambulant vendors in carrying out their financial analysis or projections.

Other salient assumptions and projections included:

- a. Income generated from the new market would cover operating expenses and amortization of a P 15.2 million (100%) loan carrying a 12% interest rate for a period of 25 years, plus a two-year grace period for principal.
- b. There would be 100% occupancy and a 100% rental collection rate by Year #3.
- c. An annual gross income of P3,187,00 in Year #3 with annual operating expenses of P995,00; resulting in a surplus of P2,192,000 before debit service.
- d. An annual debit service cost of P2,087,686 beginning in Year #3.
- e. A projected EIRR of 10.78%.

During the course of the evaluation, members of the team: (1) visited the completed market; (2) interviewed concerned personnel in Legaspi including the mayor, the city treasurer and the market manager; and (3) reviewed financial records and reports in Legaspi and Manila. On the basis of the above, the team was able to determine the following;

- a. The new market, as constructed, cost approximately P26.4 million including price escalations of approximately P4.9 million. The original construction contract cost was approximately P21.5 million vs. the estimated cost in the feasibility study of P15.2 million. The total constructed size conformed to the feasibility figure of 7,200 square meters, but contained 630 stalls.

- b. Using the rental rate structure contained in Legaspi Municipal Ordinance #01-89, and currently being applied, the maximum annual income generated by the new market would only approximate P1.8 million. When income from the existing older building and daily cash tickets from ambulant vendors is included, an annual maximum annual income of P2.6 million could be anticipated.
- c. Annual operating costs for the market of P1.1 million in 1988.

Of a total of 630 stalls, 179 are either not occupied or have been abandoned. Of the remaining 451 stalls, 50 percent are delinquent in rental payments by at least 30 days, with some delinquent for as long as two to three years.

The current loan agreement is for P22.8 million, but does not include price escalations of approximately P3.6 million. The annual debt service requirement beginning in Year #3 (1988) is approximately P2.8 million.

In summary, the following table reflects the variances between the original feasibility study and the project as constructed:

	Feasibility Study	Actual
Size, sq.m.	7,200	7,200
Size, # stalls	680	630
Cost, P millions	15.2	25
Occupancy Rate, Year #3	100%	70%
Collection Rate, Year #3	100%	50%
Gross Income, Year #3 (1988)	3.2	1.21 <u>1/</u>

1/ Includes all stall rates collected in 1988, less an estimated amount of P426,000 rental income from a prior existing building. Cash receipts of P362,153 were not included.

On the basis of the above conditions the Legaspi market will sustain an annual operating deficit of approximately P1.1 million. This deficit is computed as follows using actual 1988 income and expense figures.

Gross Income	P 2,107,513.60
Less: Expense	<u>1,109,114.90</u>
Gross Revenue	988,398.70
Less: Annual Debit Service	<u>2,760,000.00</u>
Net Loss	<u>(P 1,771,160.30)</u>

If the market becomes fully occupied at some point in the future and all rents were collected, the annual deficit could be reduced to the level indicated below:

Gross Income	P 2,600,00
Less: Expenses	<u>1,109,114</u>
Gross Revenue	1,409,886
Less: Annual Debit Service	<u>2,760,000</u>
Net Loss	<u>(P 1,269,114)</u>

APPENDIX 9

THE DEVELOPMENT OF THE CONSULTING AND CONSTRUCTION INDUSTRIES IN THE PHILIPPINES

by Antonio A. Mansueto
GOP Infrastructure Engineer; Accredited Engineering
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A. THE CONSULTING INDUSTRY

The Consulting Industry in the Philippines is now institutionalized. This is important both to USAID and ESF Secretariat because as the Philippines moves toward more local government involvement, the capability of each unit must be developed and strengthened. The Government is also trying to reduce the size of its bureaucracy in response to legislators advocating sweeping changes thru government reorganization including a proposal to lower the compulsory retirement age from 65 to 55. Engineers so affected will most likely be hired by the consultancy industry. The need for Consultants to fill this gap become imperative in the technology transfer to the lower rank of government hierarchy, at least down to the municipal level. A beneficial program should be encouraged to achieve this end.

A brief account of the evolution of the Consulting Industry follows to give an overview to interested readers on its growth and the role it will play in the country's development in the next decade.

1. BACKGROUND

In the early 70's, there were less than 15 consulting firms in the Philippines. With the advent of foreign consulting firms doing job assignments with the then Bureau of Public Works, and Public Highways, the Department of Public Works, Transportation and Communication felt the need to recognize and improve the capabilities of Filipino consultants in the task of nation building. Initial steps were then taken in March 1980 with a 4-month symposium on the theme "Filipino Technology in the 80's" jointly undertaken by the Philippine Technological Council, the Philippine Council of Planning and Housing, the Philippine Institute of Environmental Flanning and the United Architects of the Philippines in collaboration with eight government ministries and agencies, and seven schools and universities.

A set of recommendations was presented to the President of the Republic of the Philippines and during the concluding ceremony, two documents were signed:

- 1). Letter of Instruction (LOI) 1000 - giving recognition and support to all members of professional organizations accredited by the Professional Regulation Commission and extending to bonafide members, priority considerations in contracting for professional services.
- 2). Letter of Instruction (LOI) 1001 - designating and accrediting the Philippine Council for Planning and Housing as the responsible organization and forum for discussion and review of proposed government policies and programs in planning and housing.

The above policy issuances prompted the Philippine Technological Council (PTC), composed of 16 accredited technological associations, to jointly undertake the preparation of a "Standard Guidelines on Consulting Services". This document, was not officially adapted by infra-agencies of the Government in as much as this was not enacted by the Philippine legislature. Most of those agencies adopted their own guidelines of similar substance and pattern as the standard guidelines prepared by PTC.

Inspite of the slow pace in the demand for the services of local consulting firms in the past, their number has increased to about fifty. With the thrust of the present dispensation to involve more local consultants in conducting feasibility studies, detailed engineering design and construction supervision plus the adaption of the accreditation system for individual consultants and consulting firms, hopefully their number and quality will be enhanced.

2. THE NEDA GUIDELINES

- 2.1 PD 1594 is a law prescribing policies, guidelines, rules and regulations for Government Infrastructure Contracts. It was promulgated in June 11, 1978. The EDSA Revolution changed the Government. The President, as the interim legislative arm of the government, promulgated on May 5, 1987 Executive Order No. 164 which provides for additional guidelines in the processing and approval of contracts of the national government. This order partakes of the nature of a law as this was enacted before Congress was set in place. Salient in its provision is Section 3 (Approval of Consultancy

Contracts) which mandates on the National Economic and Development Authority (NEDA) to promulgate guidelines on the hiring of consultants.

- 2.2 The NEDA Guidelines, formulated by a multi- sectoral Ad Hoc Committee, is anchored in the spirit of the 1987 Constitution, wherein the practice of professions in the Philippines is limited to Filipino citizens, save in cases prescribed by law. After several sessions the NEDA Board, chaired by the President, approved the guidelines and made it effective on November 25, 1987.

The NEDA Guidelines provide, among others, for the creation of an umbrella organization to accredit consulting firms and individual consultants and to police its ranks. Responding to its formation were five consulting organizations, namely:

- 1) The Society of Philippine Accredited Consultants, Inc. (SPAC) - An association of individual consultants, organized to provide a reservoir of talents which can cater to the needs of consulting firms.
- 2) The Council of Engineering Consultants of the Philippines (CECOPHIL) - This organization has been in existence for more than a decade. Its members include both Filipino and foreign consultants who engage in purely consultancy services. CECOPHIL is a member organization of FIDIC, an International Association of Consulting Engineers.
- 3) The Institute of Management Consultants of the Philippines - (IMPHIL) - This group is composed of business and management consultants.
- 4) The Council of Filipino Consultants, Inc. (COFIC) - Newly organized and has for its members only Filipino consulting firms with no foreign membership.
- 5) The Council of Consulting Architects and Planners of the Philippines (CCAPP) - This is an organization of Filipino architectural and planning firms.

Thus the umbrella organization, Confederation of Filipino Consulting Organizations, Inc. (COFILCO) was born. Unlike that of the contractors, the accreditation of consultants is by peers.

- 2.3 NEDA provided copies of the Guidelines to various foreign lending institutions, like World Bank (WB), Asian Development Bank (ADB), OECD, etc. This drew varied

reactions NEDA clarified the issues raised by these lending institutions on probable conflicts which may arise between the Bank guideline and the NEDA Guideline. They were a bit satisfied, when NEDA contended that the bank guidelines will prevail.

Other salient points of the Guidelines are summarily stated hereunder:

- 2.3.1 Advertisement of projects in the procurement of consulting services is required. No longer will projects be given to "pet" firms by direct shortlisting.
- 2.3.2 The system and procedure in shortlisting consultants and the evaluation criteria thereof, as well as the concurrence of foreign lending institution concerned.
- 2.3.3 The criteria for the selection of consultants under the "two envelope" system where each shortlisted firm submits two envelopes simultaneously, one containing his technical proposal and the other his financial proposal. The technical proposals are evaluated first in order to select the first ranked consultant. This done consideration of the financial terms of the services of the first ranked consultant proceeds. The "one-envelope system" maybe adapted for smaller projects by rating the technical proposal for a maximum of 60% and the lowest financial tender 40%. The concurrence of the foreign lending institution is required in the final selection of the consultant to be awarded the project.
- 2.3.4 Consultants are categorized as Individual, Sole Proprietorship, Partnership or Corporation.
- 2.3.5 Only Filipino consultants shall be hired as prime consultants contracting the services for government infrastructure projects and related activities. Qualified foreign consultants may be hired only when there are no available Filipino consultants for certain aspects to associate with the Filipino consultants. This provision perturbed foreign lending institutions. However, Republic Act No. 4860, an act authorizing the President of the Philippines to obtain foreign loans and credits to finance approved economic developments and for other purposes, leaves it to the President to

resolve conflicting issues. Some provisions of the NEDA Guidelines might be in contravention with the Bank guidelines of foreign lending institutions especially on the selection of consultants.

This was resolved though by the opinion of the Secretary of Justice stating that international agreements like that with foreign banks on loans for development project, must prevail over local laws.

- 2.3.6 The creation of Prequalification, Evaluation and Awards Committee (PEVAC) in each Infrastructure or Non-infrastructure Department or agency in the government was also provided. LOI No. 1440 dated November 2, 1984 declared the ESF secretariat as an infrastructure agency giving full authority to the Executive Director to award and approve contracts. This PEVAC for consultancy shall maintain a file of consultants containing information on their capabilities and experience to undertake consulting services. For new firms, the experience of their principals shall be considered as the track record of the firm. The Confederation of Filipino Consulting Organizations, Inc. (COFILCO) is tasked to submit its files of accredited consultants to PEVAC for registration purposes.

3. THE ACCREDITATION SYSTEM FOR CONSULTANCY BY THE CONFEDERATION OF FILIPINO CONSULTING ORGANIZATIONS, INC. (COFILCO)

PROCEDURE

It is the policy of the Confederation to deal with its member-organizations and not with any individual consultant or consulting firm. All communications therefore must pass through the member organization. Applications for accreditation and registration must be coursed through the respective member-organizations who will be responsible for processing and ensuring that the maximum requirements for accreditation and registration are met.

Two copies of the completed Application for Accreditation and Registration will be endorsed by the member-organization to CIFILCO.

The Chairman of the Accreditation Committee reviews the duly accomplished application forms to check if all requirements for accreditation and registration are complied with.

The COFILCO Board of Directors in a meeting will discuss each application received, approve said application and direct that the consultant be listed in the Registry of Consultants.

The COFILCO President endorses the accredited consultant to the NEDA.

Once a year, the Board of Directors will review and update the Registry of Consultants which is endorsed to NEDA and the various PEVAC of the department/agency/corporation per Section 3.2 of the Guidelines.

All applications for accreditation and registration of consultants that are questioned by the COFILCO Board will be returned immediately to the respective/concerned member-organization for their action on any deficiency indicated so as to meet the accreditation requirements.

B. THE CONSTRUCTION INDUSTRY

1. Background

The construction industry as regulated, dates back to the enactment of RA 4566, otherwise known as "An Act creating the Philippine Licensing Board of Contractors, prescribing its powers, duties and functions, providing funds therefor, and for other purposes". This Contractors Licensing Law, promulgated in June 19, 1965, provides for the creation of the Philippine Licensing Board of Contractors under the then Office of the Boards of Examiners. It defines the term "Contractor" as an offerer of bids and provided for three classifications, namely:-

- a. General Engineering Contractor
- b. General Building Contractor
- c. Specialty Contractor

Each classification is given categories in terms of A, B, C, D depending on its capability in so far as technical, equipment and financial resources are concerned. This law sieved out fly-by-night contractors and really established the identities of each one of them. Somewhere along the way, it was realized that since contracting is a business endeavour, it was appropriate to place the Philippine

Licensing Board of Contractors under the Department of Trade and Industry. Thus was enacted a new Fiat, PD 1746, transferring the regulation on contracting from the Office of the Boards of Examiners to the Construction Industry Authority of the Philippines (CIAP), an attached agency of the Department of Trade and Industry. Under its structure are the following:

The Philippine Contractors Accreditation Board (PCAB)
The Philippine Domestic Construction Board (PDCB)
The Philippine Overseas Construction Board (POCB)
The Construction Industry Arbitration Commission (CIAC)

2. PD 1594

PD 1594 is a presidential decree promulgated June 11, 1978, prescribing policies, guidelines, rules and regulations for government infrastructure contracts. It was enacted to provide contractors, consultants, arbitrators, government agencies involved in construction, and other sectors of the construction industry the latest information governing infrastructure contracts in the Philippines. The coverage of its implementation rules and regulations as amended are principally the following:

Detailed engineering; instructions to bidders; bidding procedures/awarding of contracts; contract implementation; other contending factors in implementation; Inter-agency Committee on the Registration and Classification of Contractors.

The latest amendments to PD 1594 includes the involvement of qualified private sector representatives to the Prequalification, Bids and Awards Committee (PBAC). There are two groups of contractors allowed participation in the PBAC. They are (a) The Philippine Contractors Association (PCA) and (b) The National Confederation of Contractors Association of the Philippines (NACCAP). Other amendments are: the advertisement of projects costing P1.0 million and below to be done once within a week; bidding for projects within the small category is limited to small contractors, although DPWH allows participation of medium contractors for cluster of small projects done simultaneously; award to be made to lowest bid not higher than the AAE; allows surety bond from private surety companies for purposes of performance bond and advance payment. The intention here is to relax the imposition of the irrevocable standby letter of credit previously required. However, the requirement of a letter of credit in favor of the government to answer for the release of the 10 percent retention money was overlooked and not amended. Another welcomed amendment is the payment of actual escalation.

3. Inter-Agency Committee on the Registration and classification of Contractors

The Inter-Agency Committee is vested with the authority to register and classify contractors and is composed of representatives from the Department of Public Works and Highways (DPWH), the Department of Transportation and Communication (DOTC), the National Economic and Development Authority (NEDA), and the Office of the President of the Philippines (OP).

The Committee operates through uniform guidelines and criteria as well as access to updated contractors' records. It registers Filipino and foreign contractors (international bid of foreign-assisted projects) as well as joint-venture contractors formed in compliance with LOI No. 630.

The Secretariat of the Committee undertakes the processing, evaluation, preparation, investigation/verification, equipment inventory or inspection and issuance of necessary documents relative to the contractor's application.

Classification is made in the basis of evaluating the legal, technical and financial qualifications of contractors against the requirements of projects of different types and costs. Contractors are classified as small, medium (subclass A and B) and large (subclass A and B) with allowable range of contract costs. It was reported that there are about 3000 small contractors, 1500 medium contractors, and 500 large contractors.

Only licensed contractors such as single proprietorship, partnership or corporation (with 75 percent of capital stock owned by Filipino citizens), or joint venture contractors who are accredited by the Philippine Contractors Accreditation Board can apply for registration and classification with the Inter-Agency Committee by filing their only accomplished Application for Registration and Classification (ARC-C confidential statement). The types of projects for which a contractor may be considered eligible are roads, bridges, railways, airport horizontal structures, air navigation facilities, ports, flood control and drainage, water supply, sewerage, irrigation systems, dams, dredging and reclamation, power generating plants, power transmission and distribution facilities, etc. Their registration and classification will be valid for 3 years.

Only registered and classified contractors will be allowed to secure bid documents from any tendering agency of the Government

for any type of project under their category or categories after they have been prequalified for the particular projects of the tendering agency.

C. ARBITRATION

The Construction Industry Arbitration Commission (CIAC), duly constituted in 1988, now accepts for settlement cases or disputes arising from, or connected with contracts entered into by parties involved in public and private construction contracts. The CIAC is an implementing arm of the Construction Industry Authority of the Philippines (CIAP), an attached agency of the Department of Trade and Industry. It was created by E.O. 1008 to adjudicate and settle claims and disputes in the implementation of public and private construction contracts. The CIAC offers services on conciliation/mediation and/or arbitration as speedy and less expensive ways of settling such disputes. It ultimately recommends arbitration if a certain case is not resolved by conciliation/mediation.

To date, CIAC has a pool of 21 accredited arbitrators composed of 15 consulting engineers/experts in the field of construction, and 6 lawyers/legal luminaries in international arbitration. CIAC caters to project owners, contractors, subcontractors and those who seek to enforce their rights under the construction contract provisions and laws. Cases can be brought before an accredited arbitrator or an arbitral tribunal composed of accredited arbitrators chosen by the concerned parties. To date, no one has made use of arbitrators.

APPENDIX 10

ALTERNATIVE PROGRAMMING & FUNDING MECHANISMS

L. Miravalles and Ma. Belen Racho-Alingasa

PREMIUMED: An Alternative Programming Mechanism

Many local governments visited by the Team have compared the ESF projects policies and procedures with those of PREMIUMED. Those implementing (or having proposed) projects under the PREMIUMED Program, asked: "Why can't the ESF be like the PREMIUMED? Why can't the Secretariat adopt the decentralized procedures of PREMIUMED which gives a lot of authority and responsibility on project identification, preparation and implementation to us?"

PREMIUMED (Program for Essential Municipal Infrastructure, Utilities, Maintenance and Engineering Development), implemented since 1985, is a \$40 million World Bank-assisted project managed by a Central Projects Office (CPO) attached to the Department of Public Works and Highways. PREMIUMED's objectives and projects are very similar to that of the ESF. The PREMIUMED Project is in pursuance of the national government's policy of promoting self-reliant local government units by providing them access to long-term loans to finance urban-municipal infrastructures and services. The projects undertaken by PREMIUMED include markets, slaughterhouses, roads, bridges, bus terminals, flood control and drainage systems, water and sanitation facilities, waste disposal systems, motorpools, public water supply and sanitation facilities, etc. In addition, PREMIUMED has several non-infrastructure components namely: tax mapping, training, infrastructure and equipment maintenance and technical assistance.

The key elements of PREMIUMED are the Central Project Office (CPO), established by Department of Public Works & Highways (DPWH), which provides technical assistance to local governments to prepare investments programs, and the Municipal Development Fund (MDF), a loan account administered by the Bureau of Local Government Finance, Department of Finance. The CPO appraises the local government's project proposals and monitors implementation under the guidance of a Steering Committee. Projects approved by the Steering Committee are eligible for financing from the MDF and from project funds through the DPWH. Once the development program has been approved by the Steering

Committee, an agreement is signed between the city/municipality and the Department of Finance outlining both parties' obligations with respect to the MDF loan. At the city/municipal level, projects are proposed to the office by the Mayor and Sangguniang Panglunsod/Pambayan which also established a local Advisory Committee of key council members prior to project implementation. The Mayor designates the Local Project Officer, who, with staff of the existing city departments, is responsible for developing feasible project proposals for consideration by the mayor and advisory committee, and general management of the project which is implemented by the various city/municipal departments.

PREMIUMED is governed by a Steering Committee which is composed of representatives of DPWH, DOF, DBM, DLG and NEDA. The Steering Committee provides policy guidelines; reviews the selection of local governments proposed for financing through the MDF; reviews appraisal reports; signs subproject agreements with governments; approves draft sub loan agreements between Department of Finance and the local government, and endorses the consolidated annual program budget to the national government for inclusion of the local components in the DPWH infrastructure budget.

If a city or municipality wishes to obtain funds under the program it must satisfy the following PREMIUMED requirements:

- An expressed interest and commitment of the local Sangguniang and a favorable endorsement of the City/Municipal Mayor.
- An urban population of over 10,000.
- An annual income of at least ₱3.0 million for the last five years.
- A high incidence of adverse environmental condition and infrastructure deficiencies.
- Per capita income below urban poverty threshold.
- An equity contribution of not less than 10% of the total cost of the project package being proposed.

According to the PREMIUMED Project Director, 13 cities and municipalities are now implementing their projects, 33 more are ready to enter into agreements and about 130 are on the waiting list. They receive about 3-4 applications per month from various cities and municipalities. Their primary problem is lack of funds. The \$27 million (out of the \$40 million project) available for relending is only enough to fund the project of about ten local governments.

The main feature of PREMIUMED that LGUs emphasized is its decentralized structure which gives considerable authority and responsibility to the LGUs on such matters as:

- no feasibility studies using their own staff (or own funds for the hiring of consultant);

- preparation of detailed engineering design by in-house engineers or by outside consultants;
- awarding of contracts and supervision of construction.

In terms of funds disbursements, 50 percent of the contract cost is immediately released to the local government once the contract is signed. After one-half of the first release is spent, reimbursements are made. The funds are released from the Bureau of Local Government Finance directly to the local treasurers.

THE MUNICIPAL DEVELOPMENT FUND: An Alternative Financing Mechanisms

The Municipal Development Fund (MDF) was a scheme launched by Presidential Decree No. 1914 dated March 29, 1984 to augment stimulants for local autonomy. It created a special revolving fund out of proceeds from foreign loans, assistance and grants which are made available to the local governments for specific purposes, project components and activities set forth in international agreements entered into by the Government of the Philippines and foreign governments and international institutions (IBRD, USAID, ADB, etc.) It is a mechanism for long-term financing available for urban/rural services to all eligible local governments.

MDF is charged with the responsibility of providing timely and adequate financial support to local governments. This mandate means that the Department of Finance (DOF), Bureau of Local Government Finance (BLGF), being the administrator of the Fund, has to ensure the financing of the credit requirements of income generating projects and other community based projects which would improve local financial capabilities and/or alleviate their plight.

Since the establishment of the MDF in 1984, projects funded out of foreign loans and assistance for infrastructure, livelihood, local government capacity building, etc., have turned to the MDF as a financial conduit between the foreign lending institutions and the beneficiary local governments. Five notable projects are as of the present handled by the MDF. These includes the following:

1. Regional Cities Development Project (RCDP) funded by the

World Bank;

2. Program for Essential Municipal, Infrastructure, Utilities, Maintenance and Engineering Development (PREMIUMED) - funded by World Bank;
3. Local Resource Management (LRM) - funded by USAID;
4. Upland Access Project (UAP) - funded by USAID;
5. Sorsogon Integrated Area Development Project (SIADP)- funded by Asian Development Bank.

Sub-loans were entered into between the National Government and the beneficiary LGU's Funds were disbursed following the guidelines set in Joint Circular No. 3-84 dated May 3, 1984 as amended by Joint Circular No. 6-87 dated August 17, 1987.

To make the Fund self-sustaining, loan repayments shall accrue to the Fund for reinvestment/relending to finance similar approved projects of local government. Interest on loans are collected and starting their year (1989) principal payments are due and collectible. With this capital build-up, funds would be available for relending scheme (2nd generation loans) starting this year as soon as the guidelines have been released.

The MDF accounting system is covered with Joint Circular No. 6-87 dated August 7, 1987. The Systems are already in place and funds moves smoothly to the Central Project Office/Project Management Office, Implementing agencies and/or Local Government Units in a timely manner. The reporting and/or monitoring system has been clearly defined and is workable.